

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

COLOMBIA

URBAN SOCIAL HOUSING PROGRAM

(CO-0241)

LOAN PROPOSAL

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BASIC SOCIOECONOMIC DATA

For basic socioeconomic data, including public debt information, please refer to the following address:

<http://www.iadb.org/RES/index.cfm?fuseaction=externallinks.countrydata>

INFORMATION AVAILABLE IN THE RE3/SC3 TECHNICAL FILES

Preparation:

- CONPES document 3121, “Autorización de la Nación para Contratar un Empréstito Externo con la Banca Multilateral Destinado a Financiar la Política de Vivienda” [Government authorization to obtain an external loan from a multilateral bank to finance housing policy], Ministerio de Desarrollo Económico; Ministerio de Hacienda y Crédito Público; DNP: DDUPRE. Colombia, June 2001.
- CONPES document 3178, “Evaluación del Programa de Subsidio Familiar de Vivienda de Interés Social, 1999-2002” [Evaluation of the social housing subsidy 1999-2002], Ministerio de Desarrollo Económico; Ministerio de Hacienda y Crédito Público; DNP: DDUPRE. Colombia, July 2002.
- CONPES document 3200, “Bases de la Política de Vivienda 2002-2006: Ajustes al Programa de Subsidio Familiar de Vivienda e Incentivos de Oferta y Demanda para Créditos de Vivienda en UVRs” [Basis for housing policy 2002-2006: Adjustments to the housing subsidy program and incentives for supply and demand for housing loans in real value units], Ministerio de Desarrollo Económico; Ministerio de Hacienda y Crédito Público; DNP: DDUPRE. Colombia, September 2002.
- Technical paper 1, “Focalización de la Política Pública de Vivienda, Período 1994-2007” [Focus of public housing policy, period 1994-2007], DNP: DDUPRE and IDB, July 2003.
- Fabio Sánchez, “El Impacto del Programa de Vivienda de Interés Social Financiado por el BID sobre el Empleo y el PIB” [Impact of the social housing program financed by the IDB on jobs and GDP], Inter-American Development Bank consulting assignment. Final Report. Bogotá, March 2003.
- IPC, “El Financiamiento a la Vivienda de Interés Social en Colombia [Financing for social housing in Colombia], Inter-American Development Bank consulting assignment. Final Report. Washington, DC, September 2001.
- Hernando Quintero, “Documento de Estrategia Informática” [Information Strategy Document], Washington, DC, May 2003.
- Peter Bromberg, “Revisión y Análisis de las Políticas, Reglamentos y Procedimientos referidos a la Vivienda Social” [Review and analysis of social housing policies, regulations and procedures], Inter-American Development Bank consulting assignment. Final Report. Chile, April 2001.
- Ricardo Bellver, “Cajas de Compensación Familiar” [Family Compensation Funds], Inter-American Development Bank consulting assignment. Final Report. August 2003.

Execution:

- Operating Regulations
- Environment and social management plan

ABBREVIATIONS

AOP	Annual operating plan
CAF	Corporación Andina de Fomento [Andean Development Corporation]
CAR	Corporaciones Autónomas Regionales [Autonomous Regional Corporations]
CCF	Caja de Compensación Familiar [Family Compensation Fund]
CONPES	Consejo Nacional de Políticas Económicas y Social [National Economic and Social Policy Council]
DANE	Departamento Administrativo Nacional de Estadística [National Bureau of Statistics]
DDT	Dirección de Desarrollo Territorial [Land Development Directorate]
DGV	Dirección General de Vivienda [Directorate General of Housing]
DNP	Departamento Nacional de Planeación [National Planning Department]
DSH	Dirección de Sistema Habitacional [Housing System Directorate]
EMS	Environmental management system
FINDETER	Financiera de Desarrollo Territorial [Land Development Finance Agency]
FNV	Fondo Nacional de Vivienda [National Housing Fund]
ICT	Instituto de Crédito Territorial [Mortgage Institute]
INURBE	Instituto de Vivienda y Reforma Urbana [Housing and Urban Reform Authority]
MAVDT	Ministerio de Ambiente, Vivienda y Desarrollo Territorial [Ministry of the Environment, Housing and Land Development]
MMW	minimum monthly wage
NGO	Nongovernmental organization
OPV	Organizaciones populares de vivienda [cooperative housing organizations]
OR	Operating Regulations
PCU	Program coordination unit
PSC	Program supervision committee
PTI	poverty-targeted investment
RSS	Red de Solidaridad Social [social solidarity network]
SISBEN	Sistema de Identificación de Beneficiarios [beneficiary identification system]
UTCCF	Unión Temporal de Cajas de Compensación Familiar [Family Compensation Fund Temporary Union]
VMVDT	Vice Ministerio de Vivienda y Desarrollo Territorial [Housing and Land Development Branch]



COLOMBIA

IDB LOANS

APPROVED AS OF AUGUST 31, 2003

	US\$Thousand	Percent
TOTAL APPROVED	10,113,041	
DISBURSED	9,190,295	90.87 %
UNDISBURSED BALANCE	922,746	9.12 %
CANCELATIONS	978,993	9.68 %
PRINCIPAL COLLECTED	4,714,784	46.62 %
APPROVED BY FUND		
ORDINARY CAPITAL	9,296,527	91.92 %
FUND FOR SPECIAL OPERATIONS	754,656	7.46 %
OTHER FUNDS	61,858	0.61 %
OUTSTANDING DEBT BALANCE	4,475,511	
ORDINARY CAPITAL	4,287,868	95.80 %
FUND FOR SPECIAL OPERATIONS	187,358	4.18 %
OTHER FUNDS	285	0.00 %
APPROVED BY SECTOR		
AGRICULTURE AND FISHERY	549,942	5.43 %
INDUSTRY, TOURISM, SCIENCE AND TECHNOLOGY	512,425	5.06 %
ENERGY	2,728,166	26.97 %
TRANSPORTATION AND COMMUNICATIONS	715,347	7.07 %
EDUCATION	86,121	0.85 %
HEALTH AND SANITATION	735,864	7.27 %
ENVIRONMENT	131,047	1.29 %
URBAN DEVELOPMENT	405,575	4.01 %
SOCIAL INVESTMENT AND MICROENTERPRISE	2,338,222	23.12 %
REFORM AND PUBLIC SECTOR MODERNIZATION	1,875,866	18.54 %
EXPORT FINANCING	0	0.00 %
PREINVESTMENT AND OTHER	34,466	0.34 %

* Net of cancellations with monetary adjustments and export financing loan collections.



Inter-American Development Bank
Regional Operations Support Office
Operational Information Unit

Colombia

Tentative Lending Program

2003

Project Number	Project Name	IDB US\$ Millions	Status
CO0268	Social Emergency Program	1,250.0	APPROVED
CO0258	Attorney General's Office Support & Strengthening	14.0	APPROVED
CO0265	Health and Social Security Reform Program	400.0	
CO0241	Social Housing Program	150.0	
CO0139	Health Services Networks Modern. Prog.	70.0	
CO0266	National Public Service Modernization Program	16.0	
Total - A : 6 Projects		1,900.0	
TOTAL 2003 : 6 Projects		1,900.0	

2004

Project Number	Project Name	IDB US\$ Millions	Status
CO0262	National Environmental System Support Program	35.0	
CO0270	Public Regulation Services Program	N/A	
CO0263	Infrastructure Privatization and Concessions II	20.0	
CO0267	Environmental Sanitation of Bogota - Phase I	50.0	
CO1001	Transport Sector Support Program	200.0	
Total - A : 5 Projects		305.0	
TOTAL - 2004 : 5 Projects		305.0	

Total Private Sector 2003 - 2004 **0.0**

Total Regular Program 2003 - 2004 **2,205.0**

*** Private Sector Project**



COLOMBIA

STATUS OF LOANS IN EXECUTION AS OF AUGUST 31, 2003

(Amount in US\$ thousands)

APPROVAL PERIOD	NUMBER OF PROYECTS	AMOUNT APPROVED*	AMOUNT DISBURSED	% DISBURSED
<u>REGULAR PROGRAM</u>				
Before 1997	8	240,083	185,506	77.27 %
1997 - 1998	8	208,627	163,017	78.14 %
1999 - 2000	4	344,100	138,445	40.23 %
2001 - 2002	5	500,700	400,325	79.95 %
2003	2	1,264,000	750,000	59.34 %
TOTAL	27	\$2,557,510	\$1,637,293	64.02 %

* Net of cancellations. Excludes export financing loans.

URBAN SOCIAL HOUSING PROGRAM

(CO-0241)

EXECUTIVE SUMMARY

Borrower and guarantor:	Republic of Colombia.	
Executing agency:	Ministerio de Ambiente, Vivienda y Desarrollo Territorial (MAVDT) [Ministry of the Environment, Housing and Land Development] through the Vice Ministerio de Vivienda y Desarrollo Territorial (VMVDT) [Housing and Land Development Branch].	
Amount and source:	IDB (OC):	US\$150 million
	Local:	US\$125 million
	Total:	US\$275 million
Financial terms and conditions:	Amortization period:	25 years
	Grace period:	4.5 years
	Disbursement period:	4.5 years
	Interest rate:	variable
	Inspection and supervision:	1%
	Credit fee:	0.75%
	Currency:	U.S. dollars, from the Single Currency Facility
Objectives:	The general objective is to support the Colombian government in its efforts to improve the supply of social housing in urban areas. The operation proposes to: (i) consolidate and finance the new system of managing subsidies for social housing; (ii) organize and strengthen the institutional and intergovernmental framework for the sector; and (iii) support the development of strategic areas in the sector, such as the market for housing microcredit.	
Description:	The program will finance the following components:	
	<ol style="list-style-type: none"> 1. Urban social housing subsidies (US\$255.4 million) <ol style="list-style-type: none"> a. Subsidies to purchase or build new housing. The program will finance a total of approximately 61,000 subsidies to procure housing solutions, targeted mainly to urban households earning between one and two minimum monthly wages (MMWs). 	

- b. **Subsidies for housing improvements.** About 10,000 subsidies to improve existing housing lacking the basics will be financed. These subsidies are mainly intended for households earning between one and two MMWs.
- 2. **Institutional and sector development (US\$3 million).** Sector development will be financed in four strategic areas:
 - a. **Strengthening of the VMVDT (US\$1.1 million).** Financing will be provided for: (i) the preparation of a strategic plan and sector policy studies; (ii) internal management systems and office equipment; and (iii) implementation of a national information network for the housing and land development sectors.
 - b. **Technical assistance for local governments (US\$1.3 million).** Includes actions to boost municipal capacity in: (i) formulating and/or improving land management plans; (ii) promoting and supervising social housing projects; and (iii) applying macrounurbanization tools to create social housing. Financing will also be provided for designing slum improvement and urban renewal projects.
 - c. **Information system for subsidy administration (US\$300,000).** An information system for third-party administration of housing subsidies will be financed.
 - d. **Technical assistance to improve the supply of microcredit for housing (US\$300,000).** Training on standardized financial management tools will be provided to seven or so housing microlenders on a pilot basis. Additionally, individual plans will be developed for two of the market's leading microlenders, tailored to the special requirements of each.
- 3. **Program administration and follow up (US\$14.9 million).** The cost of administering the two program components (US\$12.8 million), including the costs of the Fondo Nacional de Vivienda (FNV) [National Housing Fund] and the operating agency, trustee and supervisory firms, will be financed. The costs of the program coordination unit (US\$700,000) and monitoring, evaluation and external auditing (US\$1.4 million) are also included.

The Bank's country and sector strategy:

The Bank's strategy establishes three main areas for the period 2003-2006: (i) laying the groundwork to reactivate and boost the economy; (ii) promoting social development and ensuring the protection of the most vulnerable groups; and (iii) improving the country's governance and supporting reform of the State. The proposed operation contributes directly to all these objectives.

The Bank's operating policy for the housing sector (OP-751) identifies improving the housing conditions of low-income families, making public spending in the sector more efficient, and developing efficient markets in the sector as priorities. The operation under consideration responds directly to the objectives of this policy.

Coordination with other official development institutions:

During preparation of this program, the Bank coordinated with the Andean Development Corporation (CAF), which provided the Colombian government with US\$25 million in financing, as part of a US\$300-million loan, for public housing subsidies in the first half of 2003. The Bank supported CAF with technical documentation in preparing the operation. The program will also receive technical cooperation funding from the Japan Fund (TC-03-01-02-4-CO), to support startup of the monitoring system and the microcredit subcomponent. In addition, UN-HABITAT technical staff provided advisory services at the program design stage under an interinstitutional agreement with the Bank.

Environmental and social review:

Impact. A socioenvironmental analysis was conducted as part of the preparation of this operation, which indicated that most of the impacts are positive. The potential negative impacts are limited to the construction phase and will be mitigated by adopting the latest building techniques and procedures, backed by environmental legislation.

Social inclusion. Gender and ethnic considerations have been included in the program design. In the first case, more points are awarded to households headed by women. In the second, the conditions for joining the program do not pose barriers to participation by ethnic groups.

Civil society organizations play an important role in implementing the subsidy system. A considerable number—about 40 percent—of housing solutions financed with program subsidies are built collectively through civil society organizations. In general, the members of these organizations participate actively in selecting the land and in the urban and architectural designs of the typical housing to be built. In many cases, users also participate in producing their own housing solutions, either by building them themselves or

collectively, and in inspection and supervision of the works built by contractors.

Benefits:

The subsidy component will improve the standard of living of more than 70,000 low-income families either through the provision of new housing or improvements to existing buildings. They will have access to basic public services and a healthier and safer environment. In addition, the investment in housing will reactivate the construction industry, which will have a positive impact on the general economy and employment. There are other direct and indirect social and economic benefits that will be described in detail in paragraphs 4.6 to 4.19.

The institution-building component, by providing the institutions that administer the family housing subsidy with an information and monitoring system, will make it possible to detect and correct any deviations from the basic guidelines of the social housing policy. Also, by providing the VMVDT with a national information network, it will be able to improve and design, apply and evaluate sector policies. As the municipalities are strengthened, they will be able to start introducing mechanisms for control and supervision and good practices in designing investment projects in the sector, and instruments to undertake rational land-use planning.

Risks:

Novelty of the system for delivering the subsidies. FNV's subsidy system will be based on a new institutional structure and operating procedures that have only been partially tested in the field. Although the new system has been carefully designed, with great attention to detail in the functions and responsibilities of the different participants, owing to the novelty of the system there is still a risk that some of the elements may not function as planned, which will have a negative effect on performance. To mitigate this risk, a strict monitoring and feedback system has been created for the program and for all the participating agencies, that will keep FNV, the VMVDT and the PCU informed, particularly the program supervision committee (PSC) which has been especially created to evaluate progress in the program and make any necessary adjustments to its design and/or procedures.

Conflicts of interest among Cajas de Compensación Familiar [Family Compensation Funds]. Under the new system for administering subsidies, the Family Compensation Funds will be responsible for proposing and selecting the beneficiaries of FNV subsidies. The Funds will continue to administer their own public housing subsidies for their members, financed with their own resources. For most of the Funds, this dual function does not cause conflicts of interest since, by law, when a Fund has its own

resources for social housing subsidies, its members only have access to its internal subsidies. However, for a small number of Funds without enough money to finance their own subsidy system, the members have the right to apply for FNV subsidies, creating a risk that members of those Funds might be given preferential treatment. To mitigate the risk, the program's monitoring systems will pay special attention to applications processed by those Funds: (i) ensuring that the entire community is well informed about calls for applications for subsidies, particularly non-members; and (ii) verifying that the application and selection processes complied strictly with the rules.

There is also a risk of conflict of interest in the case of Funds that have developed their own affiliated construction companies for social housing. In these cases, in theory, the Funds could limit the supply of housing solutions open to the beneficiaries of subsidies granted by them. To avoid this risk, the agreement between FNV and the UTCCF stipulates that FNV subsidies can only be used for housing constructed by suppliers who have no links to the Funds.

Supplemental financing. The limited supply of credit for low-income households leads to the risk that some program beneficiaries may not have sufficient supplemental financing (in addition to the subsidy and their own savings) to cover the full cost of the housing offered on the market. To mitigate this risk, the program will channel about 73 percent of its subsidies into housing solutions that require little or no debt financing. Also, under the institutional and sector development component, a technical-assistance mechanism will be established in the VMVDT to strengthen a group of financial intermediaries that are strategically important in the social housing credit market, with a view to expanding their supply of microcredit for program beneficiaries (paragraphs 2.d to 2.26).

**Special
contractual
clauses:**

The conditions precedent to the first disbursement include:

- a. Evidence that the program supervision committee has been established (paragraph 3.2) and the program coordination unit has been established and staffed (paragraph 3.7).
- b. Signature of a service contract with the operating entity and trustee, and participation agreements with FINDETER and the Banco Agrario (paragraph 3.20).
- c. Evidence to the Bank's satisfaction that the provisional information system for subsidy administration is functioning satisfactorily (paragraph 3.21).

d. The Operating Regulations are in effect (paragraph 3.24).

Midterm evaluation. Eighteen months after the program startup or when 50 percent of the funds have been committed, whichever comes first, compliance with the program's performance indicators will be reviewed, with particular attention to the institutional and sector development component (paragraph 3.42).

Poverty-targeting and social sector classification:

This operation qualifies as a social equity enhancing project, as described in the indicative targets mandated by the Bank's Eighth General Increase in Resources (document AB-1704). Furthermore, this operation qualifies as a poverty-targeted investment (PTI) (see paragraph 4.21). However, the borrower will not be using the 10 percentage points in additional financing (see paragraph 4.22).

Exceptions to Bank policy:

None.

Procurement:

The thresholds above which international competitive bidding will be required for this project are: US\$350,000 for goods, US\$200,000 for consulting services and US\$2.5 million for works.

I. FRAME OF REFERENCE

A. Macroeconomic context

- 1.1 When it took office in August 2002, the Colombian government had to cope with the economic and social effects of a lengthy period of stagnation and a large fiscal imbalance, both in a context of escalating armed conflict. In response to these challenges, the new government defined a plan of structural reforms, intended to control the deficit and boost the economy, and an alternative strategy to deal with the conflict. These policies have begun to have a favorable impact on the country's economy, which is showing signs of reactivation. Although growth during 2002 was just 1.6 percent (slightly higher than in 2001), the expectations for the coming years are moderately positive and climbing.
- 1.2 To drive the economy in the medium term, agriculture, construction, trade and services are expected to be the main sectors—apart from industry—that will help to achieve the growth targets. The construction industry is one of the sectors with the largest growth potential, particularly after having shrunk acutely after 1999 (24.5 percent in 1999 and 0.9 percent in 2000). Today, the industry focuses mainly on social housing and housing for the middle- and high-income strata, as a result of a sharp cutback in public works. The recent shrinkage in the industry has had an adverse impact on growth in other sectors, such as firms that produce materials and inputs, and on the labor market, particularly jobs for semi-skilled workers.

B. The market for social housing in Colombia—main characteristics

1. Urban development and the housing shortage

- 1.3 In 2003, Colombia will have a population of about 44.5 million, 70 percent of whom live in urban areas. With this population base and an annual population growth rate of 1.8 percent, approximately 200,000 new families will be formed each year (150,000 in urban areas), which is a good proxy for annual demand for new housing. In comparison, data from the National Planning Department (DNP) for the last five years place the number of new housing solutions built in the country—including formal and informal construction—at an average of 120,000 units, for a shortfall of 80,000 in the annual supply of new housing stock.
- 1.4 Cumulatively, the *quantitative* housing deficit—measuring the difference between the total housing stock and the total number of families—was 1.1 million units in 2001 in the country's urban areas.¹ This is compounded by the *qualitative* housing deficit, i.e. housing that requires improvement on account of physical defects or insufficient basic infrastructure, which is typical of informal construction. Based on census data, the *qualitative* deficit was estimated to affect 975,000 additional houses in the same year, for a total cumulative deficit (quantitative and qualitative)

¹ Extrapolation from the National Bureau of Statistics' (DANE) national household survey.

of more than 2 million units, equivalent to 30 percent of the country's urban households.

2. Market segmentation

- 1.5 The housing market in Colombia can be divided into three large socioeconomic groups or segments. The first, composed of families with incomes of less than two minimum monthly wages (MMWs) (US\$250), makes up the poorest 40 percent of Colombians. Given their limited ability to pay, these families can only satisfy their desire to obtain homes of their own in one of two ways: (i) support from the government and, to a lesser extent, from the Cajas de Compensación Familiar [Family Compensation Funds] (CCFs),² in the form of family housing subsidies; or (ii) the informal sector, including pirate developers, squatting and gradual self-help construction on one's own lot. Under the family housing subsidy system, in this segment, the government grants subsidies of US\$2,600 per household, on average, facilitating the purchase of between 30,000 and 35,000 new houses a year at sales prices between US\$3,500 and US\$7,000. The housing financed by the family housing subsidy system for this segment is mainly built by organizaciones populares de vivienda [cooperative housing organizations] (OPVs) and, to a lesser degree, by private companies. Production under the family subsidy system covers an estimated 40 percent of annual needs for new housing in this segment, with the rest covered through the informal construction market and the rental market.
- 1.6 The second segment, composed of low middle-income families—between two and four MMWs (US\$250 to US\$500), i.e. approximately between the fourth and sixth income deciles—includes 28 percent of all households. Their needs for new housing focus on solutions with sales prices between US\$5,000 and US\$12,000, offered by developers that specialize in building social housing.³ Financing for this housing is mainly obtained through the mortgage market, the family's own savings and, for about 40 percent of this segment (averaging 23,000 households a year), subsidies from the family housing subsidy system. The average value of the subsidies for this segment is just US\$1,800 per family, mainly granted by the Family Compensation Funds.
- 1.7 The third market segment, composed of households with incomes above four MMWs, is made up of 32 percent of all households. The housing requirements of these families, which are units costing more than US\$17,000 (the ceiling established by law for social housing) are served exclusively by the formal

² The Family Compensation Funds are private, not-for-profit entities that provide a range of social services for their members, including social housing subsidies, subject to the same rules as the entire family housing subsidy system. Although some of their subsidies go to households earning one to two MMWs, most go to families earning more than two MMWs.

³ According to Law 388 of 1997, *social housing* refers to all housing costing less than 135 MMWs (approximately US\$17,000).

construction and mortgage industries, supported by some tax incentives offered by the central government.

3. Ability to pay

- 1.8 The possibility of acquiring formal housing depends on three sources of financing: family savings, credit and subsidies through the family housing subsidy system. Table I-1 summarizes how these sources are combined to determine purchasing power for social housing for households with incomes of up to four MMWs.

Table I-1

Average income		Income decile	Monthly ability to pay US\$	Maximum credit US\$ (A)	Ability to save US\$ (B)	Purchasing power US\$ (A+B)	Purchasing power with subsidies US\$
MMW	US\$						
Between 0 and 2	117	1 to 3	35	1,500	710	2,210	4,810
Between 2 and 4	299	4 to 6	90	7,260	1,100	8,360	10,160

Source: IDB based on document CONPES 3200 and data from the DNP.

4. Credit market

- 1.9 Banks in the formal financial sector, including specialized housing banks and to a lesser extent, universal banks, are actively involved in lending for social housing, but they generally limit loans to those with incomes of about two minimum wages or more. They know this sector very well and have considerable experience. With the housing subsidy, a history of saving, and proven income, a family has little problem obtaining a mortgage. Informal or self-employed individuals are likewise considered eligible by the formal financial sector, but generally they need to have higher incomes (three minimum wages) to qualify under underwriting standards, as it is more difficult to prove their earning history and their earnings tend to be more volatile. While the banks indicate that they work with social housing throughout the country, effective lending is limited to urban centers where they have branch offices.
- 1.10 The majority of the formal financial sector is reluctant to offer mortgages for housing priced at less than 70 minimum wages (US\$8,750), or loans for amounts of less than 10 minimum wages (US\$1,250), due to the perceived risk. Administrative costs (underwriting, loan administration, collections, etc.) are high compared to the value of normal mortgages. Collateral values are very low as there is a limited resale value and the execution of collateral is time-consuming and costly (average of 3-4 years to execute a mortgage)—albeit new legislation approved in 2003 is expected to slightly reduce these costs and time delays. Finally, the perception of default risk is very high, given that as much as 60 percent of income might end up allocated to mortgage payments, utilities and transportation leaving little surplus for food, clothing and any unexpected expenses.

- 1.11 A few formal financial institutions have experimented with providing housing/shelter loans to microentrepreneurs for expansion or rehabilitation of existing homes, since the house is frequently also the place of business. These loans are provided at market interest rates (not restricted to a cap on mortgage rates imposed by the Constitutional Court),⁴ for up to five years to a select group of borrowers. Until recently this market has remained fairly small, because of the perceived legal risk. With the recent passage of a microcredit financing law (Law 795), however, lending in this segment is expected to increase.⁵
- 1.12 Finally, there are a number of credit unions or cooperative banks that participate in the housing market, some as specialized housing finance entities, frequently linked with one of the OPVs that build houses collectively. These institutions are more willing to work with households earning less than two minimum wages, providing loans for new housing as well as for rehabilitation. The latter are provided for 3-5 year terms, with interest rates ranging between 21 percent and 29 percent. They also require compensating balances, generally 25 percent of the amount of the loan, resulting in effective nominal rates of 28 percent to 38 percent (real rates of about 20-30 percent).
- 1.13 The cooperatives, banks and other microfinance lenders, however, tend to be financially weaker, with high past due loan rates. Furthermore, they have no access to longer term funding, thus having to rely on short-term deposits to fund longer-term housing loans. These institutions could possibly take advantage of the securitization opportunities that now exist.

C. Evolution of social housing policy

- 1.14 Between 1939 and 1991, the Instituto de Crédito Territorial [Mortgage Administration] (ICT) was the public agency responsible for meeting the housing requirements of the low-income population. The ICT directly carried out all the actions in the cycle of producing a house—i.e. it was responsible for planning, design, construction, allocation and, lastly, long-term financing for the beneficiaries, granting loans at heavily-subsidized rates.
- 1.15 Over time, the ITC came to suffer from serious administrative inefficiency and arrears in its mortgage portfolio. This, among other reasons, led the national government to decide to liquidate it at the start of the 1990s and to redefine its social housing policies and subsidy systems, making them part of the new

⁴ In 2000, the Constitutional Court and the Central Bank ruled that, in order for the indexation system of mortgage loans to remain consistent with the Constitution, interest rates for housing credit needed to be capped at inflation plus 13.9 percent (and inflation plus 11 percent for social housing).

⁵ Law 795 creates a special category of lending for housing loans below 25 minimum wages (US\$3,125) and a maximum of five years maturity, allowing lending institutions to charge credit commissions for these loans, over and above the interest rate cap imposed by the Constitutional Court.

government approach of facilitating private supply combined with the use of direct subsidies for demand, turning Colombia into a pioneer in the modernization of its social housing policy.

1. Creation of the family housing subsidy system

- 1.16 In 1991, the government created the family housing subsidy system. It consists of a contribution by the government or a CCF to low-income households to be used together with their savings and, if necessary, a supplemental loan, to build or buy a housing solution directly on the market.
- 1.17 The system went through a long learning curve in the first stage (until 1998), slowly consolidating and building a climate of trust among beneficiaries and suppliers. With time, the system acquired stability until finally it could cover the housing requirements of a large number of families each year.
- 1.18 However, some aspects of the system continued to be problematic, such as: (i) the small size of the subsidies, that covered on average just 30 percent of the total value of the dwelling, sharply limited access to the system for families with low savings capacity and limited access to credit, which was aggravated when the advance savings requirement that was a requisite for joining the family housing subsidy system was removed; (ii) the mechanisms for allocating the subsidy were riddled with political interests which undermined the transparency and credibility of the system; and (iii) the continuous changes in the rules of the system, particularly with regard to the types of housing solutions that were eligible and the amounts allocated to the system in the annual budget, stood in the way of participation by private sector suppliers, who lacked confidence in the system.

2. Adjustments to the subsidy policy

- 1.19 To address these failings, and with support from a Bank technical-cooperation program (ATN/SF-6271-CO), the government conducted a systematic study of its social housing policy and, as a result, it determined to introduce new rules for the subsidy system at the end of 1999. The main aspects were: (i) to increase the size of the subsidy to cover an average of 60 percent of the total value of the house; (ii) to apply the planned savings system as a requisite for obtaining the subsidy; and (iii) to improve the efficiency and transparency of the system by unifying the procedures for eligibility, promotion, allocation and payment of the subsidy to families.
- 1.20 To increase the financial stability of the system, the law established that the national budget would allocate a minimum of US\$55 million equivalent a year for five years starting in 2000 to finance social housing.

D. Institutional framework of the sector

- 1.21 The same piece of legislation that created the family housing subsidy in 1991 replaced the ICT with a new institution, the Instituto de Vivienda y Reforma Urbana [Housing and Urban Reform Authority] (INURBE), which was to be in charge of administering urban housing subsidies, basically for households with incomes between zero and two MMWs. Despite relatively satisfactory quantitative performance (averaging 20,000 subsidies a year), the institution was severely criticized for inefficiency and lack of transparency. One of INURBE's key shortcomings was the information technology it used to administer the subsidies. First, it did not have a technology for secure access to the system—based on logs of transactions—that would allow unauthorized interventions to be monitored and controlled. As a result, the system was exposed to the risk that information could be altered (on applicants and housing projects) with the consequent manipulation of the process of selecting eligible beneficiaries and projects. Second, since the INURBE system did not have complete databanks or on-line processing technology, it did not allow for adequate verification of the data presented by applicant households and construction companies before allocating the subsidies.
- 1.22 As a result, after a period in which alternatives were studied,⁶ in early 2003, the new government undertook a plan for institutional reform and restructuring of the housing sector, which is being supported under the proposed program. One of the first steps in the reform was to strengthen the function of the lead agency in the sector, creating the Housing and Land Development Branch (VMVDT) in the Ministry of the Environment, Housing and Land Development (MAVDT). In parallel, INURBE was shut down and a new agency, the Fondo Nacional de Vivienda [National Housing Fund] (FNV), reporting to the VMVDT, was created to orchestrate the system.
- 1.23 **Ministry of the Environment, Housing and Land Development (MAVDT).** In the housing sector, this ministry, through the VMVDT, has the function of formulating and coordinating comprehensive policies, plans and programs for housing and land management. To consolidate its new lead functions, the VMVDT will require technical and logistical support under the proposed program during start up (see paragraphs 2.a to 2.15).
- 1.24 The **Fondo Nacional de Vivienda [National Housing Fund] (FNV)**, whose executive director is also head of the VMVDT's housing systems directorate, has replaced INURBE. Unlike the system INURBE administered, which was highly centralized, third parties will be used under the new system for activities ranging from publicity and promotion of the family housing subsidy to the final disbursement of the subsidies and control over each of the stages in the process (see

⁶ ATN 6271, financed by the Bank in 1998, included a proposal for outsourcing the information system on the subsidies administered by INURBE.

paragraphs 3.11 to 3.21). As for financial processes, a trustee will be contracted to disburse the subsidies to the beneficiaries. In the new procedure for processing the housing subsidies, FNV will establish a new information and monitoring system to ensure security and greater control and efficiency of operations. The program will support the design and implementation of these systems (see paragraphs 4.22 and 2.23).

- 1.25 **Family Compensation Funds (CCFs).** The CCFs are the main private entities that participate in the family housing subsidy system and the only ones which, together with FNV (formerly INURBE), carry out the entire process of application, allocation and payment of housing subsidies.⁷ Created in 1954 for the purpose of providing social services and family subsidies for the employees of member companies, their social services have grown considerably⁸ and, since 1990, they have included financing for family housing subsidies. Their original income base comes from employer contributions equivalent to 4 percent of a member company's payroll. This contribution which is approximately US\$500 million today spread among a total of 55 Funds, has been augmented each year with additional income, chiefly from business related to health, education and markets. Depending on the size of the Fund, they earmark between 5 percent and 27 percent to financing for family housing subsidies.
- 1.26 The Funds have good management capacity in the field of subsidies for social housing.⁹ Statistics for 2001 and 2002 show that they grant an annual average of 25,600 subsidies, worth approximately US\$67 million. About 42 percent of those subsidies went to beneficiaries earning up to two MMWs and the rest to beneficiaries earning between two and four MMWs. In addition to the subsidies that come from their own resources, under FNV's new system for subsidy administration, starting in December 2002, the Funds began to take responsibility for processing applications for FNV subsidies as well. Thus far this year, the Funds have processed 10,500 FNV subsidies and expect to process another 4,500 in what remains of the year. The inspection, oversight and control of the CCFs is the responsibility of the Office of the Superintendent of Family Subsidies, which issues standards and regulates the frequency of the reports that the CCFs are required to present. All these reports are open and available to the general public.

⁷ There are some public agencies which, although they are called "Cajas," are not related to the private CCF system (for example, the Military Retirement Fund, the Communications Social Insurance Fund and the Military Housing Promotion Fund).

⁸ Their benefits include education, basic health care, job training, library services, credit for microentrepreneurs, in addition to family housing subsidies.

⁹ The government has committed to a series of reforms aimed at strengthening the CCFs under the Bank-funded health care and social security reform program (CO-0265).

- 1.27 **Local governments.** By law, the local governments¹⁰ are called upon to play a larger role in the housing sector, either through direct financing of social housing and slum improvement projects or, more indirectly, by providing basic infrastructure and regulating land use. Out of all the urban housing subsidies granted by the central government to families each year, approximately 40 percent receive supplemental subsidies from municipal governments to top up the total subsidy. Through this mechanism, called *municipal effort*, the local governments supplement the central government's subsidies with their own resources, generally in the form of land and/or infrastructure. The municipalities also control the creation of new housing developments, through legal instruments such as land management plans or direct investments in new sanitary and road infrastructure systems. They are also responsible for controlling the quality of new housing construction projects, through building licenses and inspection of the works.

E. Bank experience and coordination with other donors

- 1.28 The Bank has financed several programs and technical-cooperation projects in the housing sector in Colombia. The most recent is the program to reconstruct the coffee belt (CO-0243) approved in 1999, which supported rehabilitation of the infrastructure damaged by an earthquake in that year. Under the program, 15,000 subsidies were financed to construct or reconstruct social housing in the coffee-growing zone, which used an execution system very similar to that being employed by FNV. Prior to that operation, the Bank participated in the sector through the program to support the social solidarity network (CO-0145), approved in 1995. The social housing component of that program was US\$189 million equivalent out of a loan of US\$250 million.
- 1.29 The Bank has also financed two technical-cooperation projects involving general support for the sector, including consulting services in 1999 to evaluate and reformulate the country's urban housing policy (ATN/SF-6271-CO), whose results were used as the basis for major policy reforms in that year. In 2002 it financed a project to modernize the housing sector in the municipality of Manizales (ATN/SI-7845) and is about to approve a technical-cooperation project (TC-03-01-02-4-CO) financed from the Japan Fund,¹¹ that will provide direct support for execution of the proposed program, contributing: (i) the operating design and startup of the program monitoring system; and (ii) specialized studies on the housing market, particularly on the credit market.
- 1.30 When the program was being prepared, the Bank coordinated activities with the Andean Development Corporation (CAF) and UN-HABITAT. The Colombian

¹⁰ Chiefly the municipal governments and, on a lesser scale, departmental governments and autonomous regional corporations.

¹¹ The project, called "Studies for the preparation of the urban social housing program (TC-03-01-02-4-CO)", is slated for approval in mid-September 2003.

government asked CAF for US\$25 million in financing for social housing subsidies allocated by FNV during the first half of 2003, i.e. in the period prior to execution of the program with the Bank. Since the Bank and CAF operations will finance the same subsidy system, the Bank has supported CAF with technical documentation in preparing its operation. The Colombian government also received advisory services from UN-HABITAT experts when the program with the Bank was being designed, under a recent interagency agreement between the two institutions.

F. Evaluation of the results of the family housing subsidy system

- 1.31 Three studies were conducted over the period 1999-2001 to evaluate different aspects of the social housing policy. The first, summarized in a report of the National Economic and Social Policy Council (CONPES) of June 2001, gave a brief account of the policy's progress and how targeted it was. Subsequently, the IDB asked the Colombian authorities to prepare an evaluation of the results and impact of the social housing component of the social solidarity network program, whose conclusions were presented in another CONPES report in July 2002.¹² In February 2001, the Bank contracted an independent evaluation of the family housing subsidy system to obtain more detailed information for preparation of the loan proposed here. The main conclusions of the evaluations are summarized below.
- 1.32 **Targeting and equity.** The INURBE subsidies were strongly focused on low-income families. Seventy-nine percent of subsidy beneficiaries were classified in level 1 or 2 of the national socioeconomic classification system (SISBEN). Eighty-five percent of beneficiaries earned less than two MMWs, close to 75 percent belonged to the first three income deciles, and 74 percent were living below the poverty line. Forty-five percent of the beneficiary households were headed by women, and 60 percent had more than four family members.
- 1.33 **Housing quality.** Although significant improvements were made in access and basic public services for most beneficiaries, eight percent of the houses were vacant owing to problems in the quality of construction and/or the lack of public utilities. Also, close to 25 percent of the houses did not have the minimum sanitary equipment defined in the standards, with no separate space for a bathroom and/or basic sanitation equipment. Therefore, the proposed program will give priority to implementing a strict system to control the quality of the housing financed in future with FNV subsidies.
- 1.34 **Institutional weakness of local governments.** The technical performance of many local governments, particularly in the promotion of social housing projects cofinanced through municipal effort, has demonstrated major technical

¹² The study was based on a sample of 1,094 households (distributed in 10 departments and 37 municipalities) that had received housing subsidized by INURBE.

shortcomings. According to a study by the firm KPMG, more than 30 percent of the projects presented by the municipalities during the second half of 2000 were rejected by INURBE. There were also failings in supervising the quality of the works¹³ and, in several cases, essential public services that had been promised were never built. Lastly, a significant number of local governments are still unable to produce the land management plans¹⁴ required by the family housing subsidy system as an eligibility criterion for social housing projects. To overcome these weaknesses, the program will establish a technical-assistance mechanism for local governments to bolster their capacity to promote and supervise housing projects and to design land management plans.

- 1.35 **Verification of the socioeconomic levels of applicants.** The beneficiaries of the subsidies are chosen on the basis of an application and selection process that depends on the socioeconomic data presented by them and verified by FNV. Verification of this data is greatly facilitated when the households are registered in the SISBEN system, and therefore applicants have been encouraged to join the system since 1996. However, by 2002, some 33 percent of the applicants for subsidies were still not in SISBEN, which sharply limits the ability to check the information they present. To remedy these weaknesses, under the program SISBEN's coverage of applicants for family housing subsidies will be expanded, and by the end of the program, no more than 15 percent of the beneficiaries will be lacking a SISBEN profile.¹⁵

G. Bank strategy and support

- 1.36 The Bank's country strategy establishes three main areas of activity for the period 2003-2006: (i) laying the groundwork to reactivate and boost the economy; (ii) promoting social development and ensuring the protection of the most vulnerable groups; and (iii) improving the country's governance and supporting reform of the State.
- 1.37 The proposed operation will contribute to all three of the Bank's country strategy objectives. Bank financing will be used to support the government's social housing policy by granting subsidies to low-income families and strengthening and restructuring sector institutions. Simultaneously, through its multiplier effects on the construction industry, the program will support the government's efforts to stimulate the economy and create jobs.

¹³ Receipt of the works and, consequently, payment of the subsidies, took place considerably before the housing was ready to be occupied.

¹⁴ A land management plan is a set of policies, programs and standards to guide and administer the physical development of the territory and regulate land use.

¹⁵ By the midterm evaluation of the program, SISBEN coverage should extend to no more than 25 percent of beneficiaries (see logical framework).

- 1.38 **The Bank's contribution through the proposed operation.** The proposed program reflects Bank support for the continued development and strengthening of the social housing sector in Colombia. Through the design and execution of this operation, the country's achievements over the last 10 years in the administration of housing subsidy systems will be preserved, while laying the groundwork for the development of a new system that will be more transparent and efficient and hence more sustainable. While the program was being prepared, through exchanges of ideas between the government's technical team, the project team and Bank consultants, technical support was provided for the country in several strategic areas such as: (i) the operating design of the new institutional structure to administer social housing subsidies; (ii) the design of a new information system to administer the subsidies; (iii) prioritization of the role of the local governments in the sector and design of a technical-assistance program for them; (iv) definition of a plan to support the supply of credit for social housing; (v) preliminary design of a national information network for the housing and land development sectors; and (vi) an analysis of the economic impact of the government's social housing program, quantifying expected growth in production and jobs.

II. THE PROGRAM

A. Objectives and description

- 2.1 The general objective is to support the Colombian government in its efforts to improve the supply of public housing in urban areas. Specifically, the operation proposes to: (i) consolidate and finance the new system of managing subsidies for social housing; (ii) organize and strengthen the institutional and intergovernmental framework for the sector; and (iii) support the development of strategic areas in the sector, such as the market for housing microcredit.
- 2.2 A US\$275 million program, including a Bank loan for US\$150 million is proposed to achieve these objectives, containing three components: (i) support for the social housing subsidy system; (ii) institutional and sector development activities; and (iii) program administration and follow-up.

1. Urban social housing subsidies (US\$255.4 million)

- 2.3 This component will finance approximately 71,000 subsidies to assist families, chiefly those whose monthly income is below 2 MMWs. This assistance, coupled with the family's contribution, will allow families to: (i) buy or build a complete house; or (ii) in the event they own substandard housing, to complete and/or improve it.

a. Subsidies to buy or build new housing

- 2.4 The program will finance subsidies for about 61,000 new housing solutions. Consistent with the principle of progressiveness, four subsidies that differ in size will be provided, depending on the type of solution:

Table II-1

Type of housing	Municipal population	Maximum cost		Size of the subsidy		
	No. of people ¹⁶	(MMW)	US\$ ¹⁷	(MMW)	US\$	%
1	< 500,000	Up to 40	5,000	23	2,875	58%
	>500,000	Up to 50	6,250	23	2,875	46%
2		Up to 70	12,500	16	2,000	16%
3	-	Up to 100	12,500	16	2,000	16%
4	-	Up to 135	16,875	10	1,250	7%

¹⁶ A larger subsidy (as a percentage of total cost) is granted in cities with populations over 500,000, for type 1 housing because the cost of serviced land is significantly higher in those cities.

¹⁷ The calculation is based on 1 MMW = US\$125.

- 2.5 **Eligible housing.** Eligible housing is chiefly defined on the basis of construction cost and the following minimum features:
- a. Type 1 housing (basic housing): a multiple-use room with the possibility of future expansion; and
 - b. Types 2, 3 and 4 (minimum housing): in addition to the above, includes separate spaces for bedrooms.¹⁸
- 2.6 The four types of housing are required to include all public and residential infrastructure, including hookups to potable water systems, sanitation systems, environmental management, electricity and roads.
- 2.7 **Applications and allocation of subsidies.** Applications and allocation of housing subsidies are made under the four types of arrangements for execution described below. The program Operating Regulations establish eligibility criteria and requisites for each of these arrangements, for suppliers as well as for beneficiaries.
- a. *Regular subsidy.* Families apply for a housing subsidy financed exclusively by FNV to purchase a house directly on the market. Based on historic demand, about 18,500 subsidies for types 1 and 2 housing are expected and fewer for type 3 and 4.
 - b. *Construction on own building site.* Families obtain a subsidy to build a house on a serviced lot belonging to them. The deed to the land must be officially registered in the name of a family member. Based on historic demand, the expected goal for this kind of subsidy is about 12,200 for types 1, 2 and 3 housing.
 - c. *Municipal effort.* The FNV subsidy is supplemented with an additional subsidy contributed by the local government, generally in the form of infrastructure works and/or land. Only households earning less than 2 MMWs can participate. The combined subsidy can cover a large percentage of the cost of the housing solution, assisting families with little access to the credit market. Based on historic demand, the expected goal of this kind of subsidy is approximately 20,500 for types 1, 2 and 3 housing.
 - d. *Special subsidies.* These will assist families displaced by violence and the victims of natural disasters or terrorist acts. Beneficiaries displaced by violence must be registered in the master file of displaced persons kept by the social solidarity network. Victims of natural disasters or terrorist acts will need certification from the proper regional authority that the event occurred. In all

¹⁸ The main difference among types 2, 3 and 4 is the number of bedrooms and the quality of fixtures and fittings.

these cases, FNV grants the regular housing subsidy, without the requirement of planned savings. To streamline housing solutions for these families, the subsidy may be used to finance the purchase of existing housing or to rebuild housing damaged by a natural disaster or acts of violence. According to recent trends, about 9,800 subsidies of this kind are anticipated.¹⁹

b. Subsidies for housing improvements

- 2.8 The program will finance subsidies for families who possess a housing solution that has one or more basic failings related to structural weaknesses, unsuitable construction materials, insufficient sanitary or electrical equipment, or insufficient living space. The basic characteristics of these subsidies are shown in Table II-2.

Table II-2

Type of solution	Maximum cost		Amount of the subsidy		
	(MMW)	US\$	(MMW)	US\$	%
Housing improvements	Up to 15	1,875	11.5	1,300	70

- 2.9 To obtain this subsidy, families must have the deed to their property registered in the name of a family member at the Office for the Registration of Public Instruments. Applications must be collective and geographically concentrated. The housing improvement subsidies are expected to number about 10,000 over the four years of the program. To achieve this goal, the program has a promotion and technical-assistance plan designed to support intermediation by local governments and community organizations.

2. Institutional and sector development (US\$3 million)

- 2.10 The objective of this component is to support the country in developing the sector in four strategic areas: (i) strengthening of the VMVDT's management capacity as lead agency in the sector; (ii) strengthening of local governments in functions related to social housing; (iii) design and implementation of a new information system to administer the family housing subsidy and to track the housing market and general housing policy; and (iv) increase in the supply of microcredit for social housing, through a technical assistance plan for credit institutions.

a. Strengthening of the VMVDT (US\$1.1 million)

- 2.11 The VMVDT will be modernized administratively and technologically, bolstering its capacity to formulate policies and monitor and regulate the sector. Specifically, steps will be taken to provide it with: (i) tools for strategic planning and studies for formulating sector policy; (ii) internal management systems, equipment and

¹⁹ Under the Operating Regulations, they may not account for more than 15 percent of total program subsidies.

- rehabilitation of physical space; and (iii) a national information network to monitor the sector.
- 2.12 **Strategic planning and sector studies (US\$160,000).** A strategic planning exercise for the VMVDT will be financed to complement the preliminary exercise carried out when the ministry was established. Funds have also been set aside for technical studies in strategic sector policy areas that may emerge as a result of the exercise.
- 2.13 **Internal management systems, equipment and rehabilitation of physical space (US\$540,000).** Actions to strengthen processes and systems for decision making and to reorganize the VMVDT (working methodology, structure, personnel and evaluation by results) will be financed. Information systems will be developed to improve day-to-day operations (document reception, file processing circuit, consultations and complaints, information for the public). The VMVDT will also be provided with basic computer equipment and the physical space will be rehabilitated.
- 2.14 **National information network for the housing sector and land management (US\$410,000).** A major failing in the old housing directorate was the lack of data and integrated information on the sector. The design and development of an information system will be financed to facilitate access to strategic indicators to refine the country's housing policy, such as: construction of housing solutions by type and geographic area; housing subsidies granted by different institutions; socioeconomic profiles of applicants for subsidies; profile of the population not covered by the family housing subsidy system; and characteristics of the social housing credit portfolio. The network has been designed with web service mechanisms that are easy to access and inexpensive to install and maintain. The fundamental design is based on interagency agreements on mutual sharing of information by program participants.
- 2.15 The following will be financed: contracts for a consulting firm to develop the network and the system of sector indicators and for individual consultants; procurement of computer equipment (networks, computers, printers and software), including complementary training activities.

b. Technical assistance for local governments (US\$1.3 million)

- 2.16 Three strategic functional areas have been identified for the housing sector, where local governments play a key role but suffer from many weaknesses: (i) land planning and management; (ii) evaluation and supervision of social housing projects; and (iii) techniques to improve informal settlements and for urban renewal.

- 2.17 **Technical assistance for the design and/or improvement of land management plans (US\$400,000).** One of the restrictions faced by the municipalities in gaining access to social housing funds is their technical weakness in preparing land management plans.²⁰ Without a plan, they cannot gain access to social housing funds because the plan is the tool that defines the percentage of new urban land that can be used for that purpose. About 35 percent of municipalities do not have approved land management plans and frequently those that do have not fully developed or applied the instruments it contains.²¹
- 2.18 Consequently, the VMVDT will be supported in boosting the capacity of local governments to formulate and/or improve their land management plans by contracting consulting services to: (i) prepare technical assistance packages that are differentiated on the basis of the main categories of municipalities; (ii) test the technical assistance packages in at least 10 pilot projects; (iii) implement the technical assistance packages in at least 25 municipalities; and (iv) design a strategy for broad dissemination of the technical assistance tools.
- 2.19 **Technical assistance for social housing projects (US\$480,000).** Some municipalities have encountered difficulties in the past in promoting and/or supervising social housing projects, and in using the macro urban development tools that the law provides for creating social housing. The program will mount a training and technical assistance system for local governments in these areas. Specifically, consulting services will be financed to: (i) prepare technical assistance packages or methodologies, differentiated on the basis of the main categories of municipalities, including a diagnostic analysis of the state of the art in the design, supervision and use of macro urban development tools to generate social housing projects on the municipal level; (ii) test the technical assistance packages in at least 10 pilot projects; and (iii) implement the technical assistance packages in at least 20 municipalities.
- 2.20 **Development of slum improvement and urban renewal projects (US\$420,000).** In many municipalities, the main investments in the housing sector are for the improvement of substandard settlements and urban renewal, rather than building new housing. However, over the last decade, Colombian municipalities—particularly the large and medium-sized cities—have been testing initiatives in projects of this kind,²² whose results have not been documented.

²⁰ A land management plan is a set of objectives, guidelines, policies, strategies, program goals, actions and rules adopted to guide and manage the physical development of municipal land and regulate land use.

²¹ Many municipalities have formally approved land management plans that are lacking key programming elements such as social housing needs, percentages of urban land for social housing and ownership requirements for social housing.

²² The experiments in Bogota, Medellín and Cali have been particularly innovative and have had considerable impact.

- 2.21 The program will provide funds for: (i) developing a guide for the preparation of slum improvement and urban renewal projects, based on the lessons learned from experiences in Colombia and other countries; (ii) cofinancing the formulation of at least five projects with local governments to address these issues, improving quality standards in projects of this kind.

c. Information system for subsidy management (US\$300,000)

- 2.22 With Bank support, FNV is designing a new information system able to support the structure of third-party administration. Under the system, all the participating entities will have on-line access, making it possible to update information in real time. Also, through access logs, the system will be provided with operational transparency and mechanisms to control and verify all the transactions performed, including on-line reports that will be available to the public.
- 2.23 The final design and implementation of this new system will be financed, plus a training program for users. A consulting firm will be contracted to develop the system and carry out the training activities. Financing will also be provided for licenses to manage the system's databases. Until the new system is fully implemented (slated for the second half of 2004), FNV will operate with a provisional information system, designed with Bank support, to remedy the weaknesses of the old INURBE system as a stop-gap measure.

d. Technical assistance to strengthen the supply of microcredit for housing (US\$300,000)

- 2.24 Most traditional suppliers of credit in Colombia have been reluctant to finance housing costing less than 70 MMWs, which excludes a large percentage of the housing built with FNV support.
- 2.25 The program will help to improve this situation through a technical-assistance plan for entities that offer credit for social housing, supporting them with tools for entering this market segment and/or funding their portfolios in the segment. Specifically, this subcomponent will provide funds to: (i) in agreement with second-tier institutions, design standardized lending rules and procedures, to facilitate portfolio management for social housing lenders and give them greater access to sources of financing, and train seven or so lenders on a pilot basis in applying those rules and procedures, selecting the lenders chiefly on the basis of their potential for being refinanced by the second-tier institutions; and (ii) for two selected entities representing the strongest and most promising formal financial intermediaries in the current social housing market, design and deliver individual advisory services tailored to the special features of each, to build up their supply of microcredit for housing. To enhance the impact of these activities, financing will be provided for information workshops, one at the outset to present the technical

assistance proposals to interested lenders and one at the end to report on the results.²³

- 2.26 The specific technical-assistance activities and products will cover the following aspects: (i) portfolio management for small loans and for low-income borrowers, including credit analysis techniques and incentives for the staff of the lending institution; (ii) design and implementation of the new financial products; and (iii) evaluation of social housing projects. The technical assistance for the three selected entities could also cover the adaptation of information systems, the costing of products and services, and the preparation of market studies.

3. Program administration and follow-up (US\$14.9 million)

- 2.27 This component includes the costs of administering the program components (US\$12.8 million), especially the subsidy system and the program coordination unit (US\$700,000), as well as the costs of monitoring, evaluation and auditing of the operation (US\$800,000 for monitoring and evaluation and US\$600,000 for external auditing). The cost of administering the components chiefly includes the cost of contracting the operating entity, the trustee and the social housing project supervisors. Also included are the costs of activities to support the environmental management system for the program (US\$130,000), as described in paragraph 4.37, and the cost of hiring a specialized firm (US\$100,000) to provide the program coordination unit with contract administration support for the institutional and sector development component.
- 2.28 The cost of the project coordination unit (PCU) mainly includes contracting a team of five professionals and one assistant to work during the program, plus equipment and operating costs. In all these cases, the estimates have been based on market studies.

B. Cost and financing

- 2.29 The cost of the program, including the local counterpart, is an estimated US\$275 million, including a Bank loan for US\$150 million from the Ordinary Capital and a counterpart of US\$125 million equivalent.
- 2.30 The counterpart will come from three main sources: (i) the central government; (ii) the local governments (for the municipal effort programs); and (iii) the beneficiaries (planned savings and credit). The amounts to be contributed by the local governments will be set aside in their annual budgets during the program. The costs are distributed as shown in Table II-3.

²³ These activities will be supported under technical-cooperation program TC-03-01-02-4-CO.

**Table II-3: Costs
(US\$ millions)**

ITEM	IDB		Local		TOTAL	
	US\$	%	US\$	%	US\$	%
I. ADMINISTRATION	0.8	0.5%	14.1	11.3%	14.9	5.4%
1.1 Program coordination unit			0.7		0.7	
1.2 Component management			12.8		12.8	
1.3 Monitoring, evaluations and audits	0.8		0.6		1.4	
II. DIRECT COSTS	147.5	98.4%	110.9	88.7%	258.4	94.0%
2.1 Subsidy component	145.2	96.9%	110.2	88.1%	255.4	92.9%
2.2 Sector and institutional development	2.3	1.5%	0.7	0.6%	3.0	1.1%
2.2.1 Strengthening for the VMVDT	0.7		0.4		1.1	
2.2.2 Technical assistance for local governments	1.3				1.3	
2.2.3 Family housing subsidy information system			0.3		0.3	
2.2.3 Technical assistance for microcredit	0.3				0.3	
SUBTOTAL	148.3	98.9%	125.0	100%	273.3	99.4%
III. CONTINGENCIES	0.2	0.1%			0.2	0.1%
IV. FINANCIAL COSTS	1.5	1.0%			1.5	0.5%
TOTAL	150.0	100%	125.0	100%	275.0	100%
%	55%		45%			100%

C. Financial terms and conditions

- 2.31 The Bank loan of US\$150 million will come from the Ordinary Capital. Table II-4 shows the terms and conditions.

Table II-4 Terms and conditions of the loan	
Source of financing:	Ordinary Capital (OC)
Amount:	US\$150 million
Periods:	
Amortization:	25 years
Execution:	4 years
Disbursement	54 months
Interest rate:	Variable
Inspection and supervision:	1%
Credit fee:	0.75% on the undisbursed balance
Currency:	U.S. dollars from the Single Currency Facility

III. PROGRAM EXECUTION

A. Borrower and executing agency

- 3.1 The borrower and guarantor of the operation will be the Republic of Colombia and the executing agency will be the MAVDT, through the VMVDT. A program coordination unit (PCU) located in the office of the deputy minister will be responsible for overall coordination of execution. Three agencies will be responsible for specific components, i.e. FNV for the subsidy component and information system; the Land Development Directorate (DDT) for the subcomponent to assist local governments; and the Housing System Directorate (DSH) for the subcomponent on technical assistance for microlending. In addition, the subcomponent to strengthen the VMVDT will be the direct responsibility of the office of the deputy minister, and the National Planning Department (DNP) will conduct the midterm review and final project evaluation. A program supervision committee (PSC) will oversee general compliance with the program's policies and goals and interagency coordination. The organization and functions for program implementation, the arrangements for execution and the mechanisms are described in the following sections.

B. Organization for execution

1. Program supervision committee (PSC)

- 3.2 The committee will be chaired by the Minister of Environment, Housing and Land Development, who may delegate such responsibility to the Deputy Minister of Housing and Land Development. The committee will consist of the director of planning of the MAVDT, the directors of the DDT and the DSH, the general coordinator of FNV, and the general coordinator of the PCU, who will act as secretary. Meeting each quarter or when called by the chair, its functions will be to: (i) review the normal development of the program's policies and goals and compliance with them; (ii) approve changes in program policy; and (iii) review and approve the annual operating plans (AOPs) in accordance with the assessed budgets. The committee's functions, powers and operating rules have been included in the Operating Regulations. **Establishment of the PSC will be a condition precedent to the first disbursement.**

2. The program coordination unit (PCU)

- 3.3 The PCU will be responsible for overall program administration and coordination. Its responsibilities are spelled out in the Operating Regulations and are summarized in the following paragraphs.

- 3.4 Technical: (i) to consolidate the AOPs; (ii) to provide guidance and review the preparation of terms of reference and bid documents for procurements of goods and services, and consulting work; (iii) to monitor the program, ensuring compliance with operating procedures and contractual clauses; (iv) to follow up on compliance with the recommendations made by the monitoring system; and (v) to prepare the technical reports required by the Bank.
- 3.5 Financial: (i) to expeditiously present the disbursement requests and justifications of eligible expenditures; (ii) to implement and maintain suitable information systems for the program's financial administration; (iii) to prepare and present semiannual financial reports on the project and movements in the revolving fund, as well as any other financial reports required by the Bank; and (iv) to oversee the maintenance of a suitable system for filing the supporting documentation for eligible expenditures.
- 3.6 Management/control: (i) to establish operational controls; (ii) to coordinate the evaluation and monitoring of the AOPs; and (iii) to serve as program liaison with the Bank and other public and private institutions.
- 3.7 The PCU will have a coordinator, three professional staff and one secretary, paid for by the program. The VMVDT will make one professional available to the PCU to take charge of monitoring and follow-up and a specialist to keep the program's accounts.²⁴ The coordinator will be a professional with experience in projects financed by multilateral agencies. The contract will require the Bank's nonobjection. **Establishment and staffing of the PCU will be a condition precedent to the first disbursement.**

3. National Housing Fund (FNV)

- 3.8 FNV's responsibilities will include: (i) contracting or establishing agreements with the participating public and private entities and supervising their activities; (ii) programming the volume of subsidies for each round of applications and obtaining the necessary financing; (iii) promoting the system among private construction companies to ensure an adequate supply of social housing; (iv) granting the subsidies in accordance with program rules; (v) controlling the quality of housing and the provision of the associated public utilities; and (vi) implementing and maintaining suitable information systems for accounting and financial management of the subsidies component.
- 3.9 To carry out the above responsibilities, FNV has 15 positions organized into five units: technical support, information systems, financial area, legal area, and administrative area. An evaluation of its organization found the following: (i) good structure and distribution of functions; (ii) trained staff; (iii) a provisional

²⁴ This staffing may be adjusted during program execution as work needs change.

information system to meet information requirements for process and accounting management, until the final information system is operating. Despite these positive aspects, it is necessary to strengthen FNV with: (i) a full-time professional with responsibility for complaints; and (ii) a part-time professional for the equivalent of three person/months a year to assist during peak periods of activity and contingencies. This additional person will be drawn from the MAVDT's staff.

4. Family Compensation Funds (CCFs)

- 3.10 The CCFs will play a key role in the program, since they will be responsible for publicity, receipt and verification of applications, prequalification of applicants and monitoring and verification of the documentation, before FNV pays the subsidy through the trustee. Continuing with the organization that has already been tested in executing FNV subsidies during 2003, the CCFs will be grouped into a joint venture known as the UTCCF to provide national coverage and unified services. The UTCCF already has a central office in Bogota for internal monitoring of compliance with the contract with FNV. The UTCCF's activities will be overseen by the Office of the Superintendent of Family Subsidies, complemented by the monitoring systems and the operational and financial audits included in the program.

C. Execution mechanism

1. Social housing subsidies

- 3.11 This component will be coordinated by FNV, with support from the PCU, and executed by public and private entities. FNV will be responsible for contracting those entities. Because they will be financed with local resources, the contracting procedures established in Colombian law will be followed. The contracts will establish the tasks and mutual obligations and responsibilities, all of which are spelled out in the Operating Regulations. The following paragraphs contain a summary of the execution process for this subcomponent.
- 3.12 **Calls for applications, submission of applications and selection of beneficiaries.** To launch the process, FNV plans to hold annual calls for applications, informing families of the basic requirements to apply for each type of subsidy (see the Operating Regulations).
- 3.13 Regional distribution of the funds to promote calls for applications is defined year by year on the basis of the following criteria (see the Operating Regulations): (i) sixty percent is assigned to municipalities that are departmental capitals, based on population size (since those municipalities are home to about 60 percent of Colombians); and (ii) the remaining 40 percent is distributed among the other municipalities based on a formula that includes relative poverty indicators and classification of applicants in the family housing subsidy system.

- 3.14 Subsequently, the UTCCF takes charge of promoting the calls for applications, receiving the information presented by the applicants and cross-checking the information presented. It will draw up a list of prequalified applicants based on the points awarded to each household. The point system includes the following socioeconomic parameters: poverty level, number of family members, whether the household is headed by a woman, type of housing desired, number of times the family has applied, and whether it has made the necessary savings.
- 3.15 FNV reviews and audits the information presented by the UTCCF (through the system of program audits),²⁵ and then determines applicant qualifications, assigns the subsidies and publishes the list in a national newspaper. Fifteen days are allowed after the list is published for filing complaints. The beneficiaries have approximately one year to claim their subsidies.
- 3.16 **Preparation and execution of social housing projects.** In parallel and as part of the process, the construction companies, NGOs, OPVs, etc. present their projects for housing solutions to the entities contracted to review them (e.g. FINDETER, Banco Agrario, commercial banks). These entities review the technical, legal and financial feasibility of each project and if it is satisfactory they declare it eligible. The conditions include obtaining municipal building permits. The subsidies can only be applied to the purchase or construction of housing solutions that have been declared eligible.
- 3.17 Once the subsidies are assigned, the technical execution process begins. If the solution chosen by the beneficiary is an existing house, a sales contract is drawn up and presented to the UTCCF. The latter checks and sends the consolidated information to FNV, which issues the order for the financial agent (trustee for the system) to pay the vendor directly, after performing the necessary verifications. If the solution is a new house to be built, a purchase contract is signed establishing the location, specifications, cost and other characteristics of the house. The contract is presented to the UTCCF which, after reviewing and checking that the subsidy has been obtained and that the project is eligible, forwards the information to FNV.
- 3.18 FNV reviews and orders the works supervisor to verify the information provided by the construction company and to visit the work site to ensure that public utilities are available and that the land is not in a risk area and does not belong to someone else. Once that has been done, the builder can start on the building and when it is completed, it is registered in the name of the beneficiary. With that registration, FNV authorizes the trustee to pay the subsidy directly to the constructor. In the case of construction by cooperative housing organizations (OPVs), at the beneficiary's request, FNV may instruct the trustee to deposit an advance of up to 80 percent of the subsidy in the beneficiary's savings account. This advance, plus the

²⁵ If the rules established in the contract between FNV and the UTCCF are not complied with, the Funds may be sanctioned with fines of up to 10 percent of their contracts (see the Operating Regulations).

beneficiary's savings, can be used to finance the building. To ensure that the funds are only used to build the promised housing, the OPV is required to provide an insurance policy and open a trust account that will only pay out funds against progress in the works, to be certified by the project technical inspector.

- 3.19 During the entire process, at least two entities will monitor execution of the physical works: the inspectors in charge of monitoring execution and the supervisory firms responsible for monitoring the activities of the inspectors and reporting to FNV. The program also provides for permanent monitoring and audits (see paragraphs 3.33 to 3.41). Table III-1 shows the main activities and the oversight entities.

- 3.20 The UTCCF, the trustee, FINDETER, the Banco Agrario and the financial entities have been selected on the basis of their experience and capacity to perform activities for the program. Also, the NGOs, universities and consulting firms to perform the technical supervision and members of professional colleges to act as inspectors will be contracted following competitive procedures. A preliminary service contract with the UTCCF was signed in early 2003 and is expected to be renewed during the fourth quarter of this year. **Prior to the first disbursement, FNV will present evidence that a service contract has been entered into with the operating agency (UTCCF) and trustee, and that participation agreements have been signed with FINDETER and Banco Agrario.**²⁶

- 3.21 Until the permanent information system to administer the subsidies is operating, FNV will work with a provisional system that covers the main requirements. **Prior**

Table III-1

Main participants in delivering social housing		
I. Applications and allocation		
1. Programming the calls for applications	→	FNV
2. Promoting the calls for applications	→	Family Compensations Funds
3. Receipt of information	→	Family Compensations Funds
4. Determination of points	→	Family Compensations Funds
5. Review and allocation of subsidies	→	FNV
II. Preparation of social housing projects		
6. Issue of licenses and permits	→	Municipalities and public utilities
7. Review of projects and declaration of eligibility	→	FINDETER, Banco Agrario and commercial banks
III. Construction and delivery of the works		
8. Technical supervision of the works	→	Consulting firms, NGOs, universities
9. Permanent technical inspections	→	Inspectors (individual consultants)
10. Receipt of the works	→	Technical inspector, municipalities and public utilities
IV. Financial management		
11. Technical authorization of payments	→	Technical inspector of the work
12. Administrative authorization of payments	→	Family Compensation Funds
13. Validation and payment order	→	FNV
14. Payment of advances and subsidies	→	Trustee
V. Coordination and supervision		
15. General coordination	→	FNV
16. Monitoring	→	Independent consulting firm
17. Auditing	→	Independent auditing firm

²⁶ The agreement between FNV and FINDETER has been established. The service contract with the trustee and the agreement with Banco Agrario are currently being negotiated. They are expected to be signed by the end of October 2003.

to the first disbursement, FNV will present evidence that the provisional system is operating acceptably, to the Bank's satisfaction.²⁷

2. Institutional and sector development component

- 3.22 Through its housing systems and land development directorates, the VMVDT will program activities, monitor and control the quality of the products contracted. Each directorate will have a person in charge of the subcomponent to act as liaison with the PCU in all matters related to progress and reports in its area. For its part, the PCU will coordinate execution of the respective components. The action plans for each of the subcomponents include the types of activities to be carried out (studies, procurements), the types of consulting services required, the preliminary terms of reference and the respective execution timetables.

3. Operating procedures

- 3.23 The program will be executed on the basis of **annual operating plans (AOPs)**; the plan for the first year is ready. The AOPs will be prepared by the PCU and approved by the PSC. They will cover the following aspects: (i) the activities to be carried out and the goals for the year; (ii) investments and expenditures and the sources of financing; (iii) the units and officials responsible for achieving the goals; and (iv) the environmental commitments indicated in paragraphs 4.29 to 4.37. They will also establish programming for the goods to be procured, the personnel to be contracted and the consulting services to be carried out.
- 3.24 In addition, the program as a whole will be governed by the Operating Regulations, whose text has been agreed upon with the VMVDT. The OR include the operating mechanism for the program, the functions of the PCU and the PSC and the other participants, the eligibility criteria for beneficiaries, the amounts and characteristics of the different segments of the subsidy, the eligibility criteria for the housing solutions by subsidy segment, and the program's financial mechanism. The OR also establish the limits and procedures to be followed in procuring goods and services and equipment, which are consistent with the Bank's rules and procedures. **Placing the Operating Regulations in effect is a condition precedent to the first disbursement.**

D. Procurement

- 3.25 The Bank's normal procedures will be followed in procuring goods and services related to program execution. For procurements of goods and services, international competitive bidding will be used when the cost is US\$350,000 equivalent and over. For goods costing less, domestic legislation will be applied, provided it does not conflict with Bank rules. Since the only works to be carried out are remodeling of

²⁷ The provisional information system is expected to be fully implemented by October 2003.

the VMVDT's physical space for an estimated US\$180,000, international competitive bidding will not be required for that contract. International competitive bidding will be used for consulting services costing an estimated US\$200,000 and over. Consulting contracts will be administered with support from a contract administrator selected by open competition. The procurement plan is presented in Annex III-1.

E. Disbursement schedule

- 3.26 Table III-2 shows the disbursement schedule for the loan and the local counterpart, which is based on the execution timetable for the program.

Table III-2

Source	Disbursement schedule (In US\$ millions)				Total	%
	2004	2005	2006	2007		
IDB	47	45	45	13	150	55%
Local	39	38	37	11	125	45%
Total	86	83	82	24	275	100%
%	31%	30%	30%	9%	100%	

F. Cost recognition and advances of funds

- 3.27 Before the operation is approved, the borrower will grant subsidies in accordance with the procedures described above. The government has also incurred some expenses related to the launch of the operation. In accordance with operational policy OP-54, the project team reviewed the procedures that will be used in granting the subsidies and recommends that expenditures up to a maximum of US\$11 million be recognized from the loan, provided the activities are performed within the 18 months before it is approved. The amount of US\$5 million equivalent will be recognized from the local counterpart for expenditures incurred within 18 months prior to approval of the loan, including preparation costs. Costs will only be recognized retroactively if requisites substantially similar to those established in the loan contract have been followed.

G. Financial administration

- 3.28 **Flow of funds.** A revolving fund will be established to manage the loan proceeds, equivalent to 10 percent of the loan. This level is necessary because of the projected monthly costs—mostly for subsidies—of about US\$4.8 million and periods for replenishing funds that can take nearly three months. The loan proceeds will initially be paid into a current account for the program in dollars in the Banco de la República, and will then be transferred in pesos as needed, on the request of the PCU through the Ministry of Finance, into two current accounts in Colombian pesos—the first for FNV to finance the subsidy component and the second for the

MAVDT to finance the sector and institutional development component and to cover the costs of the PCU. The funds in the FNV account will only remain there for a maximum of five days before being transferred to the trustee to pay the subsidies.

- 3.29 Payments into the FNV account and their transfer to the trustee will be made on the basis of the lists of the subsidies to be paid after the requisites are complied with. These lists are prepared by the CCFs and reviewed by FNV. The money in the MAVDT account will be deposited in such account to cover payments for consultants and the expenses of the PCU. Under contractual arrangements, the trustee will pay the subsidies within a maximum of five days²⁸ and since the funds in the MAVDT account are based on cost programming, the revolving fund balances generally should be in the account in the Banco de la República. In addition to the accounts for managing loan proceeds, the MAVDT will open another account for the counterpart resources. The ministry will act as treasurer of that account and FNV will act as account manager.
- 3.30 **Accounting.** The PCU will maintain an accounting system for the program in accordance with Bank requirements and will account for all the program items, except those related to the subsidies component. It will also consolidate its accounts with the accounts received from FNV for the subsidy component and will present semiannual reports to the Bank on the status of the revolving fund. For its part, FNV will maintain the accounts required by the government and the portion of the program accounts related to the subsidies. FNV will also perform monthly audits of the balance of undisbursed resources and subsidies that are returned, forwarding this information to the PCU so that it can prepare the statements on the revolving fund.

H. Internal control, follow-up and evaluation

- 3.31 Given the innovative institutional structure to be used for the program, particularly in the subsidies component, it has been necessary to include control measures to ensure: (i) efficient and transparent use of resources; (ii) compliance with the regulations and procedures established in the program design; (iii) timely measurement of results; and (iv) preliminary evaluation of impacts and lessons learned. To achieve these objectives, the program includes the mechanisms described below for each of the stages in the subsidies component.
- 3.32 In addition, two mechanisms have been included to oversee the subsidies system in general and to track the other components: (i) a monitoring system; and (ii) external financial audits. They, in turn, will be complemented by the midterm and final evaluation exercises.

²⁸ Undisbursed payments or subsidies that are returned must be reported to the FNV at the end of the monthly accounting period and are subject to program auditing and monitoring.

1. Control and monitoring mechanisms

- 3.33 **Applications.** The background information on potential beneficiaries of the subsidy is received, processed and checked by the UTCCF. This information and the supporting documents provided by the applicants are verified by crossing different data bases with socioeconomic information on the families (property register and subsidies granted by other entities). The monitoring system will, in turn, check the quality of the verification process.
- 3.34 **Allocation of the subsidy.** The results of the above process are sent to FNV, which, through the program auditing firm, will review the points assigned to each family by the UTCCF. Then FNV will prepare a list with the points obtained by the applicants (based on the criteria established in the OR), which is published and circulated nationally and locally. FNV publishes the final list of beneficiaries, forwarding it to the UTCCF so that the Funds can deliver the subsidies to the respective beneficiaries. Following publication, parties will have 15 days to file claims. The auditing system will review this process.
- 3.35 **Project eligibility.** On the housing supply side, suppliers will present their social housing projects to the evaluating agencies, including FINDETER, Banco Agrario or commercial banks overseen by the office of bank supervision; the evaluating agencies will determine whether the projects are eligible. The firm contracted for technical supervision of the projects verifies the information supporting the decision on eligibility, including: municipal and environmental licenses, infrastructure projects approved by the corresponding public utility, estimated cost of the works compatible with system regulations, etc.
- 3.36 **Construction.** The process of building the houses will be supervised by the permanent technical inspectors who will oversee compliance with the technical specifications and good construction practices. Compliance with environmental standards will also be monitored. The inspectors will be chosen by the beneficiaries, from professional or trade associations selected by FNV. The quality of the work of the inspectors will be monitored by the technical supervisors.
- 3.37 **Disbursement of the subsidies.** The program funds to pay the subsidies will be deposited in a trust which, on FNV's instructions, will pay the subsidies when the housing is completed or an advance when it is under construction. In the latter case, the builder will provide guarantees equivalent to the amounts received in advance. All flows of funds from the trust will be audited as part of the program's financial audits.
- 3.38 **Monitoring system.** This system will include periodic evaluations of: (i) program procedures and organization of tasks, proposing any necessary adjustments or updates; (ii) performance by the main agents participating in the subsidy component; and (iii) achievement of goals and impacts as compared to previously-

established indicators and baselines.²⁹ The final design and startup of the monitoring system will be carried out by a consulting firm contracted under a technical cooperation program (TC-03-01-02-4-CO) financed by the Bank with resources from the Japan Fund.³⁰ The system will be applied independently by a consulting firm contracted with program resources. These firms will present reports to the ministry and the PCU, the Bank and the firm of external auditors. The reports will be used as inputs for Bank supervision and for external auditing.

- 3.39 Some of the key aspects to be monitored include: (i) housing quality; (ii) time taken to execute the subsidies; (iii) level of use of the resources in the trust; (iv) targeting of the subsidy system; (v) progress in the institutional strengthening tasks and their impact; and (vi) the risk that the CCFs may have a conflict of interest in their dual role as operators of the family housing subsidies and builders, and other risks identified in the logical framework. The socioenvironmental indicators will also be monitored in accordance with the environmental management plan established for the program (see paragraph 4.31). For greater confidence in the validity of the information received, random surprise visits will be paid to a sample of the entities participating in the program. The work of the monitoring firm will be supervised by the PCU, which will have a professional from the MAVDT's Planning Department who specializes in this area. After the end of the program, the department will take responsibility for monitoring the subsidies.
- 3.40 The work of the monitoring firm will be reflected in the progress reports that the PCU will remit semiannually to the Bank and bimonthly to the deputy minister. The reports will describe progress in the program, the corrective measures taken (or to be taken) and the work of the CCFs and other agents involved in program execution, particularly in the subsidies component. An extract of the main points from the evaluation of the CCFs will be published in the media. Based on these reports, the Country Office, with the support of the project team, will hold follow-up meetings with the PCU at least once a year. The meetings will review progress in the program and in the institutional changes and the reports of the monitoring firm. The first of the meetings will be held once the conditions precedent to the operation have been satisfied. In the event that problems are detected during execution, corrective measures will have to be taken in order to continue committing program funds.
- 3.41 **External auditing.** During the execution period, the borrower, through the executing agency, will present the program's and FNV's financial statements annually, certified by an independent auditing firm acceptable to the Bank. The auditing statements will be presented within 90 days after the close of each

²⁹ The baseline for the main indicators established in the logical framework has been quantified by the government's technical team.

³⁰ The work of the firm, which should be contracted in December 2003, will include program monitoring during the first half of 2004.

financial year. The auditing firm will be contracted for the program execution period. The audits will be financial and operational and the financial statements will be examined on the basis of terms of reference agreed upon in advance with the Bank, which will include unannounced random visits and reviews during the year of a sample of the entities participating in the program. The cost of the audits has been included in the cost of the program and will be financed from the loan proceeds.

2. Evaluations

- 3.42 **Midterm evaluation.** Eighteen months after the program startup or when 50 percent of the funds have been committed, whichever comes first, a consulting firm contracted by the National Planning Department (DNP) will perform a midterm evaluation to be financed under the program. The evaluation will include: (i) progress toward the goals specified for the midterm in each of the program's components, based on the midterm performance indicators established in the logical framework (see Annex III-2); (ii) a description of any problems identified, together with the particulars of the steps taken to solve them; (iii) an evaluation of the monitoring system; and (iv) an analysis of the work of the UTCCF and the trust.
- 3.43 **Final evaluation.** When 90 percent of the resources have been executed, a consulting firm contracted by the DNP in agreement with the Bank (financed with loan proceeds) will perform a final evaluation. In addition to the areas included in the midterm evaluation, it will analyze the results achieved in the different components, compliance with and/or deviations from the goals proposed in the logical framework and beneficiary satisfaction with the program.
- 3.44 **Ex post evaluation.** Since the program includes a monitoring and evaluation system to measure its impact during execution, the borrower does not find it necessary to perform an ex post evaluation. The team agrees with that decision, since the midterm and final evaluations will evaluate the main aspects of the program and information will be available for a future impact evaluation, should the Bank decide to perform one.

IV. FEASIBILITY AND RISKS

A. Institutional feasibility

- 4.1 FNV's institutional structure was designed considering the functions of coordination, approval and follow-up of the new family housing subsidy. When the program was being prepared, FNV evidenced administrative flexibility and adequate capacity to manage its human resources.
- 4.2 The Family Compensation Funds (CCFs) were selected on account of their extensive experience in granting subsidies, acquired over the course of more than 10 years work in applying allocation mechanisms to their own members, similar to the ones planned in the program. These entities have also been directly in charge of allocating FNV housing subsidies since December 2002, with good results. The agencies that will evaluate the eligibility of social housing projects, such as FINDETER and Banco Agrario, also began to exercise these functions at that time, demonstrating good management capacity. Further, there are private and academic entities in Colombia with excellent capacity to act as monitors, supervisors and trustees under the program.
- 4.3 To execute the institutional strengthening component, capacity is needed in the administration of consulting contracts. While the VMVDT does possess such capacity, it will receive support from a contract administrator.

B. Financial feasibility

- 4.4 Table IV-1 presents a breakdown of the counterpart and percentages out of the total cost of the program. The different items in the counterpart were estimated taking into account the budgetary capacity and/or past experience of the contributor. In the case of the contributions by the central government, including about US\$13 million for administrative costs, the funds necessary for the first year of the program have been included in the draft budget for 2004.

Table IV-1

Counterpart and total cost		
Item	US\$	%
1. Central government	25	9%
2. Municipalities	30	11%
3. Family savings	35	13%
4. Family credit	35	13%
Total counterpart	125	45%

- 4.5 The counterpart contributions from beneficiary families, from savings or loans, reflect recent experience. In the case of savings, the amounts in savings plans for social housing are far higher than program requirements. The counterpart to be contributed by the local governments is also based on recent experience, strengthened by the strong demand by municipalities to participate in the municipal

effort mechanism.³¹ Further, to enhance the feasibility of the municipal counterpart, the municipal governments are required to demonstrate that they have set counterpart funds aside in their budgets for the year in which they intend to participate.

C. Sustainability of the subsidy system

- 4.6 The financial sustainability of the family housing subsidy system will depend on the future commitment of its main financiers, which are the central government, the local governments and, in parallel, the CCFs, through their own private systems.³² The federal government's commitment is considered firm. For more than 10 years it has been financing the system, turning it into a powerful and stable source of economic production. Furthermore, under Law 546 of 1999, it turned this trend into a legal commitment, undertaking to provide US\$55 million in real annual spending until the end of 2005. Given the public and private interests vested in financing for social housing, it is to be expected that future governments will maintain this commitment.
- 4.7 In the case of the local governments, the trend over the last five years—despite the recession in the country—has been toward continuous growth in their contribution to the family housing subsidy system, through the mechanism of municipal effort. It is to be expected that the commitment will continue in future for the same reasons as the central government.

D. Economic impact

- 4.8 The program entails a series of benefits for the families that receive a housing solution, for the State and for society as a whole. Even though some of the benefits involve transfers between sectors, they are analyzed separately to learn about possible conflicts of interest/objectives that could impair program feasibility. Since no negative externalities are anticipated, the social costs should not exceed the strictly financial costs (see the cost table). The benefits that have been identified are described below and quantified where it was possible to obtain information at a reasonable cost.³³
- 4.9 **Beneficiary households.** The well-being of families will increase as a result of: (i) the improvement in housing conditions and the surroundings; (ii) better access to

³¹ Recent experience indicates that municipal demand for each round of applications (backed by verified counterpart contributions) has been five times higher than the resources offered for social housing by the central government.

³² The future financial commitment of the Funds to the subsidized housing system is defined in Law 580 of 1999 as a percentage of the revenues of each Fund.

³³ A breakdown of the estimates is available in the program's technical files.

certain basic public services; (iii) a greater sense of security; (iv) an increase in net worth; and (v) lower spending on housing.

- 4.10 A study compiled in CONPES 3178 indicates that households benefiting from a housing subsidy (period 1999-2001) substantially improved their access to housing and public utilities, particularly roads, public lighting, sidewalks and curbs, and wooded areas. The current program is expected to bring even greater benefits, since a large number of controls have been included to guarantee the quality of the housing and the surroundings.
- 4.11 Also, in aggregate terms, the families increase their net worth in an amount equal to the subsidy received (US\$188 million).
- 4.12 Families that were renting before they received a subsidy under the program will see an average reduction of 14 percent in housing costs during the period they repay their mortgages. Once the mortgage is paid off, they will only be responsible for property taxes, which on average do not exceed 7 percent of family income. For families that did not pay rent, it is very likely that their housing costs will increase when they become owners (particularly if they need credit) at least by an amount that is similar to their property tax and basic utilities payments.
- 4.13 **The State.** Some of the main direct benefits to the State will be higher levels of economic activity (see paragraph 4.18) and savings in fiscal resources from better administrative efficiency and changes in the subsidy system.
- 4.14 The national subsidy required for each new house is reduced as a consequence of greater mobilization of other supplemental sources of financing (municipal resources, family savings—money and land—and credit). While government subsidies financed about 70 percent of the value of the housing solutions in the period 1999-2002, under the new plan, they will not exceed 56 percent of that value. The program will produce 61,000 new houses for a total cost to the government of US\$142 million (in terms of subsidies). Under the old plan, the cost would have been over US\$165 million.³⁴
- 4.15 In addition, the reforms and strengthening of system institutions will reduce the costs of administering the subsidies, which will fall to 10.6 percent of the value of the subsidies from a previous high of 18 percent (under INURBE). Accordingly, the new system will free up more than US\$10 million,³⁵ which could be used to grant 5,000 national subsidies to buy new housing or to fully finance about 3,200 housing solutions.

³⁴ The analysis did not include national subsidies to finance housing improvements, which will be US\$19 million.

³⁵ Taking all the national subsidies included in the program as the base.

- 4.16 According to a simulation study financed by the Bank,³⁶ the increase in the general level of economic activity stemming from the higher investment in housing will allow close to 80 percent of the funds granted by the government as subsidies to be recovered in the form of higher tax revenues by the end of the program (US\$124 million).
- 4.17 **Society as a whole.** Since housing construction is strongly linked to productivity in the local economy,³⁷ it is expected that it will spur economic activity and job creation. This greater dynamism will increase activity on the credit market, which will have a positive impact on the real sector. Improvement in the standard of living of a broad segment of society will create better social cohesion which, in the last instance, helps to reduce certain kinds of criminal behavior that harm the general well-being. The following is a quantitative analysis of these benefits, based on the results obtained from the simulation for the program execution period.
- 4.18 The construction of social housing for an estimated US\$246 million will lead to a cumulative increase in GDP of US\$343 million (approximately US\$295 million in present value). This indicates that for each dollar invested in social housing, US\$1.40 of economic activity are generated (or US\$2.30 per dollar of subsidy), which is higher than observed for the construction of luxury housing (which uses a higher percentage of imported inputs), but lower than other types of investments, such as infrastructure and manufactures of exportable goods. However, in the last two cases, the maturity period of the investments is longer and therefore they would not have such an immediate effect on economic reactivation as housing construction.³⁸ The existence of a considerable amount of idle installed capacity³⁹ makes it possible to reactivate the economy without excessive inflationary pressure. As a result of higher demand, the cumulative inflation rate would be three percentage points higher than in the absence of the program.
- 4.19 It is also anticipated that more than 70,000 temporary jobs (direct and indirect) will be created. Unlike the case of investments in infrastructure and exportable manufactures, the construction of social housing has a strong capacity to create direct jobs (in relative terms, the opposite holds true for indirect jobs). The cost of creating a new direct job in those sectors is about US\$6,000, US\$40,000 and US\$10,000, respectively.

³⁶ Sánchez F. and Prada F. (2003) “El impacto económico del Programa de Vivienda Social” [The economic impact of the social housing program].

³⁷ According to estimates by CAMACOL [Colombian Construction Association], 93% of the inputs used in housing construction are produced domestically.

³⁸ The investment in housing has its highest impact on GDP nine months after it is made (these estimates are based on a VAR model).

³⁹ For the average Colombian company, about 66% of installed capacity was being used in August 2002, which is lower than the average for firms that produce nontradable goods (which includes the construction industry). The cement industry uses about 60% of its installed capacity.

E. Social and environmental impact

1. Social impact

- 4.20 **Targeting and PTI.** The program will benefit the lowest-income urban groups in two ways: (i) directly, through subsidies that will facilitate access to decent housing; and (ii) indirectly, by creating more jobs in response to the increase in economic activity.
- 4.21 In the period 1999-2001, over 70 percent of families that benefited from the subsidy were living below the poverty line established by DANE,⁴⁰ thanks to the significant relative weight assigned to social variables when selecting beneficiaries. Those variables include: (i) ranking the household on the basis of the SISBEN fiche, and (ii) the greater weight assigned to families headed by women. During the program, it is estimated that the percentage of families living below the DANE poverty line will rise to over 80 percent, particularly as a result of the shift in emphasis in allocating subsidies to mechanisms involving municipal effort, housing improvements and construction on own lots, which require little or no supplemental credit to complete the payment for the housing solution.⁴¹
- 4.22 In addition to qualifying automatically as a social equity-enhancing project,⁴² the project also qualifies as a poverty-targeted investment, provided that the DANE poverty line is used. The borrower will not require the 10 percentage points in additional financing permitted for PTIs.
- 4.23 The economic growth promoted by the use of semi-skilled labor is a necessary condition for poverty reduction. The program contributes in this regard, since it promotes employment in the construction sector, which makes intensive use of semi-skilled and, hence, low-cost labor. The simulation indicates that close to 20,000 households would cease to be poor as a consequence of the rise in GDP.
- 4.24 **Women as participants and beneficiaries.** The gender dimension has been explicitly included in allocating program subsidies. In the point system for the selection of beneficiaries, additional points are given to households headed by women. Also, more than half the subsidies granted and/or executed with the intermediation of cooperative housing organizations (OPVs) go to women in that situation. Some organizations are composed of “community mothers” who use their

⁴⁰ The line is US\$96 a month per person.

⁴¹ In addition, better targeting is expected thanks to the program goal of increasing the percentage of applicants registered in SISBEN each year. The program’s technical files contain a detailed analysis of the degree of targeting of the housing subsidy policy over the last 10 years and a calculation of the projections on the level of targeting expected under the program for the period 2003-2007.

⁴² Based on the targets established in the Report on the Eighth General Increase in the Resources of the Bank.

homes as kindergartens to care for the children of working parents. These women can also apply independently for subsidies for home repairs and improvements.

- 4.25 **Citizen participation.** Civil society organizations play a large role in implementing the social housing subsidy system. A considerable number (about 40 percent) of the housing solutions financed with FNV (formerly INURBE) subsidies are built collectively through housing NGOs and OPVs. In general, the members of these organizations participate actively in selecting the land and in the urban and architectural designs of the typical housing to be built. In many cases, users also participate in producing their own housing solutions, either by building them individually or collectively. These groups can act as part of a network for citizen oversight of housing projects, including their own.
- 4.26 Today, the system of administering subsidies headed by FNV has a number of mechanisms for program dissemination and feedback. The ministry, together with the departmental and/or municipal governments, holds community information meetings targeted to very poor people who need housing, while the UTCCF provides information and specific training for its applicants. FNV is preparing a new document to improve contact with potential applicants. The ministry, FNV and the UTCCF (because it manages funds under a public program) receive and respond to complaints from users by mail or over the telephone, as required by law.
- 4.27 As feedback for the formulation of the proposed program, a workshop was held with different players, including representatives of: (i) beneficiary households; (ii) OPVs and NGOs; (iii) the construction industry; (iv) entities that offer credit for social housing; and (v) local governments and the main entities that will execute the program (MAVDT, FNV, FINDETER, the UTCCF). The conclusions and recommendations of the workshop have been taken into consideration in the design of the operation.
- 4.28 **Indigenous communities and ethnic minorities.** The Colombian government developed specific regulations for managing subsidies and social housing for rural communities where virtually all of the country's indigenous population lives. The few groups living in urban areas where the program will operate are governed by special selection criteria and the cultural values of the community are respected in housing designs. Ethnic minorities receive special treatment in San Andrés and Providencia, where at least 50 percent of the resources must benefit them. Afrodescended populations will also receive special treatment.

2. Environmental impact

- 4.29 The program will have a clearly positive environmental impact. The housing conditions of the beneficiaries will improve substantially, compared to the alternative of informal housing, establishing an urban space with adequate water,

sewage, and trash disposal services, less risk of being affected by natural disasters, and green areas and community facilities.

- 4.30 However, there are environmental risks that need to be monitored, particularly those associated with: (i) the location of new housing in sites subject to flooding or landslides or in ecologically sensitive areas (reserves, shorelines, etc.); (ii) the use of unsuitable construction techniques and failure to comply with construction standards; (iii) the increase in the burden on basic infrastructure caused by the new demand; (iv) the safety and occupational health of workers; and (v) project construction (noise, dust, traffic obstruction, debris management and disposal, cut and fill, land stabilization or compacting, alteration in the daily routine of the population, conflicts with neighbors, etc.).
- 4.31 To prevent or mitigate these risks, an environmental management system (EMS) will be implemented, coordinated by the PCU. The EMS will: (i) monitor compliance with the applicable standards; (ii) produce documentary and supporting materials for training and education; and (iii) monitor the environmental impact of the housing projects financed by the program.
- 4.32 To verify environmental compliance, the most recent standards and land planning regulations will be used as the frame of reference, particularly the laws on land management (Laws 388/97 and 507/99) and their enabling regulations and Decree 1052/98 on building licenses and land development, which include environmental and natural-disaster prevention provisions to be followed in preparing urban housing projects. In compliance with these rules, all the municipalities are required to prepare land management plans to regulate the urban development process, including planning for services and the location of social housing, to prevent conflicts over the use of high risk land or environmental protection. Legal control is exercised over developments on unsuitable land through the development and/or building license issued by the *Curador Urbano* (municipal overseer) and therefore subsidized social housing can only be built in municipalities that have a: (i) land management plan;⁴³ and (ii) a guarantee of public services furnished by the service provider or by the project individually if there is no means of connection. The *Curador* is responsible for overseeing compliance with all the urban and environmental rules and ensuring that the housing designs apply the standards for earthquake-resistant buildings (Law 400/97).
- 4.33 Control of the impact of social housing projects is regulated by land management rules and Decree 1180/03 on environmental licenses. For projects in municipalities with land management plans, the decree only requires natural resource use permits,

⁴³ Fewer than 38 percent of municipalities, where less than 20% of the urban population lives, have no plan. The ministry intends to support the approval of plans at a rate of 100 a year, and to complete the process in just over three years. Municipalities in areas with black or indigenous populations are exempted from the plans.

where pertinent. The Autonomous Regional Corporations (CARs) are the authorities in charge of issuing the permits and overseeing application of the rules.

- 4.34 The entity responsible for determining the technical eligibility of the housing projects, will ensure that the environmental variables established in the environmental management system (EMS) have been included. Also, each project inspector will be responsible for ensuring that builders apply the guidelines for good environmental practices in design and construction, which include labor health and safety and a list of inappropriate materials whose use is banned. To strengthen the supervisory role of the EMS, the OR will include a requirement that construction contracts establish the obligation to use the guidelines. The guidelines will include legal obligations regarding occupational health and industrial safety.
- 4.35 Workshops offered by the evaluation entity will train builders in the areas of: (i) environmental obligations and good practices; (ii) societal control over construction companies; (iii) coexistence and respect for public and private spaces; and (iv) use of the system of complaints and the appropriate channels for filing them.
- 4.36 Monitoring and follow-up in the EMS will be performed through the program's audit, supervision and monitoring systems, including random verification of projects using indicators such as: (i) ratio between applications for subsidies for municipalities with land management plans and municipalities without plans; (ii) women beneficiaries out of total beneficiaries; (iii) days of delay between the availability of water and/or sewer services and the date of delivery of the houses; (iv) preventive measures or sanctions for failure to comply with the environmental requirements during constructions; (v) complaints about environmental problems; and (vi) number of work-related accidents among construction workers out of the total number of workers.
- 4.37 To implement the environmental management and monitoring activities, US\$130,000 has been included in the loan under the item "Administration of Subsidies" (see paragraph 2.27), to cover the costs of: (i) design, preparation and dissemination of guidelines; (ii) external environmental advisory services; and (iii) training for staff from the executing agencies and construction companies. Also, a budget of US\$1 million has been included in the item "Program Administration" to cover the costs of monitoring and evaluating the operation, including the environmental monitoring described above.

F. Benefits

- 4.38 Under the subsidy component, the housing conditions of more than 70,000 families will improve (most with monthly incomes of less than two MMWs), either through the provision of new housing or upgrades to existing buildings. They will have better access to basic public services (water, sewers, drains, etc), and healthier and

safer surroundings. To ensure that these benefits are substantial, the program introduces a large number of control and supervisory mechanisms to guarantee the quality of the housing and its immediate environment.

- 4.39 In addition, the investment in housing will reactivate the construction industry, which will have a positive impact on the general economy and employment. There are other direct and indirect social and economic benefits that are described in detail in paragraphs 4.8 to 4.37.
- 4.40 The institutional strengthening component, by providing the institutions that administer the family housing subsidy with an information and monitoring system, will make it possible to detect and correct any deviations from the basic guidelines of the social housing policy. Also, providing the VMVDT with a national information network will enable it to improve the design, application and evaluation of sector policies. As the municipalities are strengthened, they will be able to start introducing mechanisms for control and supervision, good practices in designing investment projects in the sector, and instruments for rational land-use planning.

G. Risks

- 4.41 The following are the most important of the risks identified for the present operation, which are listed in the column headed “Assumptions” in the logical framework.
- 4.42 **Novelty of the system for delivering the subsidies.** FNV’s subsidy system will be based on a new institutional structure and operating procedures that have only been partially tested in the field. Although the new system has been carefully designed, with great attention to detail in the functions and responsibilities of the different participants, owing to the novelty of the system there is still a risk that some of the elements may not function as planned, which will have a negative effect on performance. To mitigate this risk, a strict monitoring and feedback system has been created for the program and for all the participating agencies, that will keep FNV, the VMVDT and the PCU informed, particularly the program supervision committee (PSC) which has been especially created to evaluate progress in the program and recommend any necessary adjustments to its design and/or procedures.
- 4.43 **Conflicts of interest among Compensation Funds.** Under the new system for administering subsidies, the Family Compensation Funds will be responsible for proposing and selecting the beneficiaries of FNV subsidies. The Funds will continue to administer their own public housing subsidies for their members, financed with their own resources. For most of the Funds, this dual function does not cause conflicts of interest since, by law, when a Fund has its own resources for social housing subsidies, its members only have access to its internal subsidies.

However, for a small number of Funds without enough money to finance their own subsidy system, the members have the right to apply for FNV subsidies,⁴⁴ creating a risk that members of those Funds might be given preferential treatment. To mitigate the risk, the program's monitoring systems will pay special attention to applications processed by those Funds: (i) ensuring that the entire community is well informed about calls for applications for subsidies, particularly non-members; and (ii) verifying that the application and selection processes complied strictly with the rules.

- 4.44 There is also a risk of conflict of interest in the case of Funds that have developed their own affiliated construction companies for social housing. In these cases, in theory, the Funds could limit the supply of housing solutions open to the beneficiaries of subsidies granted by them. To avoid this risk, the agreement between FNV and the UTCCF stipulates that FNV subsidies can only be used for housing constructed by suppliers who have no links to the Funds.⁴⁵
- 4.45 **Supplemental financing.** The limited supply of credit for low-income households leads to the risk that some program beneficiaries may not have sufficient supplemental financing (in addition to the subsidy and their own savings) to cover the full cost of the housing offered on the market. To mitigate this risk, the program will channel about 73 percent of its subsidies into housing solutions that require little or no supplemental financing, in other words into projects involving municipal effort, housing improvements and construction on own lots. Also, under the institutional and sector development component, a technical-assistance mechanism will be established in the VMVDT to strengthen a group of financial intermediaries that are strategically important in the social housing credit market, with a view to expanding their supply of microcredit for program beneficiaries.

⁴⁴ Of a total of 56 CCFs, only the members of the 16 smallest Funds are entitled to apply for the FNV housing subsidies.

⁴⁵ Except in cases where there is no alternative, and then the exception will have to be validated by the VMVDT or FINDETER.

COLOMBIA
URBAN SOCIAL HOUSING PROGRAM
(CO-0241)

TENTATIVE PROCUREMENT PLAN

Main program procurements	Source of financing		Method	Prequalifi- cation	Specific procurement notice	Expected date of procurement
	IDB (%)	Local/ Other (%)		Yes/No	Tentative date of publication	
1. Institutional and sector development component						
1.1. Consulting services						
Consulting firms						
Technical assistance land management plans (US\$380,000)	100	0	ICB	Yes	II 2004	III 2004
Technical assistance social housing (US\$300,000)	100	0	ICB	Yes	II 2004	III 2004
Special studies (2 contracts US\$50,000)	100	0	LCB	No	II 2004	III 2004
Microcredit (US\$300,000)	100	0	ICB	Yes	I 2004	II 2004
National information system (US\$300,000)	100	0	ICB	Yes	III 2004	IV 2004
Individual consultants						
Various contracts	100	0	DC	NA	NA	NA
1.2. Goods						
Equipment VMVDT/ PCU (US\$220,000)	100	0	LCB	No	I 2004	II 2004
1.3. Works						
Renovations to the VMVDT building (US\$180,000)	60	40	LCB	No	II 2004	III 2004
2. Administration component						
2.1. Consulting services						
System operators (US\$1.9 million/year)		100	DC	No	NA	I 2004
Trustee (US\$350,000 a year)		100	LCB	No	IV 2003	I 2004
Supervisor (three firms for US\$250,000 a year)		100	LCB	No	IV 2003	I 2004
Auditing (US\$600,000)	100		ICB	Yes	I 2004	I 2004
Monitoring (US\$600,000)		100	LCB	No	I 2004	II 2004
Midterm and final evaluations (US\$200,000)	100		ICB	No	II 2005	IV 2005

ICB: international competitive bidding

LCB: local competitive bidding

PS: price shopping

DC: direct contracting

NA: not applicable

LOGICAL FRAMEWORK
URBAN SOCIAL HOUSING PROGRAM (CO-0241)

Narrative summary	Indicators	Means of verification	Assumptions
Objective			
<i>F</i> To improve the housing conditions of low-income families by deepening and strengthening the social housing market.	<p><i>F1.</i> Five years after the program ends, the total urban housing stock on the social housing market is 30% higher than in 2002 (53,400 units).</p> <p><i>F2.</i> Five years after the program ends, the value of the social housing credit portfolio is 20% higher than in 2002 (US\$367 million).</p> <p><i>F3.</i> Fondo Nacional de Vivienda (FNV) [National Housing Fund] is perceived by the public as a substantially more transparent, accountable and efficient agency than INURBE. Baseline: integrity index of public agencies prepared by Transparencia Colombia.</p> <p><i>F4.</i> A minimum of 80% of beneficiaries of public housing subsidies have family incomes of 2 MMWs or less by the end of the program.</p>	<p>Housing sector information system.</p> <p>Housing sector information system.</p> <p>Opinion poll.</p> <p>Evaluation based on the FNV subsidy information system.</p>	<p>The family housing subsidy continues to be a priority after the program.</p> <p>Strategic partnerships between the central and local governments continue to leverage resources for social housing.</p> <p>Stability of the national financing system.</p> <p>The fiscal situation makes it possible to maintain public investments in housing at levels similar to those planned for 2003-2007, as a minimum.</p>
Purpose			
<i>PI.</i> To expand and refine the government housing subsidy system.	<p><i>PI.1.</i> The number of family housing subsidies grows from 14,600 (average for 1999-2001) to 16,400 (average for 2003-2007).</p> <p><i>PI.2.</i> The number of subsidies allocated for each US\$10 million rises from 4,000 in 2002 to 4,600 in 2007.</p> <p><i>PI.3.</i> The percentage of family housing subsidies executed each year compared to the number assigned rises from 60% (average for 1999-2001) to 80% in 2007.</p> <p><i>PI.4.</i> The number of months between granting the subsidy and deeding the house falls from 18 in 2002 to 10 in 2006.</p>	<p>Progress reports and final evaluation.</p> <p>Progress reports and final evaluation.</p> <p>Progress reports and final evaluation.</p> <p>Official statistics on the subsidies granted each year.</p> <p>Progress reports and final evaluation.</p>	<p>Even though there are risks associated with the novelty of the system, there is: (i) good coordination and cooperation among the participating institutions; (ii) the supervision and control mechanisms are implemented in due time and form; (iii) the monitoring and auditing systems allow for evaluation of progress in the program and adjustments to the new system.</p>

Narrative summary	Indicators	Means of verification	Assumptions
<p><i>P2.</i> To strengthen the institutional framework and strategically develop the sector.</p>	<p><i>PI.5.</i> The percentage of beneficiary families satisfied with the solution received rises from 80% (in 1999-2000) to 95% by the end of the program.</p> <p><i>PI.6.</i> The percentage of beneficiaries of family housing subsidies living in risk zones falls from 37% in 2002 to 10% in 2006.</p> <p><i>PI.7.</i> The percentage of families that receive a solution with pre-established minimum physical equipment rises from 75% in 2002 to 85% in 2007.</p> <p><i>PI.8.</i> The administrative cost of family housing subsidies falls from 18% of the value of the subsidies granted in 2002 to 11% in 2007.</p> <p><i>PI.9.</i> The percentage of beneficiary households that do not live in the house after it is deeded on account of problems with quality falls from 8% in 1999-2000, to 2% by the end of the program.</p> <p><i>PI.10.</i> The percentage of beneficiary families not registered in SISBEN falls from 30% in 2003 to 25% in 2005 and to 15% in 2007.</p> <p><i>P2.1.</i> 90% of decision makers are satisfied with the family housing subsidies information system 18 months after it begins operating.</p> <p><i>P2.2.</i> The percentage of projects presented by municipalities under the municipal effort mechanism that are declared eligible rises from 60% in 2002 to 80% by the end of the program.</p> <p><i>P2.3.</i> The number of social housing microloans (Law 795 of 2003) rises from zero in 2002 to 15,000 by the end of the program.</p> <p><i>P2.4.</i> The number of social housing loans rises by 15% by the end of the program (baseline: 29,220 social housing loans in 2002).</p>	<p>Progress reports and final evaluation.</p> <p>Progress reports and final evaluation.</p> <p>Progress reports and final evaluation.</p> <p>Progress reports and final evaluation.</p> <p>Progress reports and final evaluation.</p> <p>Progress reports and midterm and final evaluations.</p> <p>Progress reports and final evaluation.</p> <p>Progress reports and final evaluation.</p> <p>Progress reports and final evaluation.</p> <p>Progress reports and final evaluation.</p>	<p>The monitoring and public disclosure of the activities of the CCFs mitigate the risks linked to the existence of possible conflicts of interest faced by the CCFs.</p> <p>The supply of microcredit for social housing increases, reducing the risk that not enough financing will be available to supplement the subsidies.</p>

Narrative summary	Indicators	Means of verification	Assumptions
Components			
<p>C1. Subsidies for social housing efficiently executed</p> <p><i>C1.1.</i> Financing for subsidies to purchase and upgrade housing</p> <p><i>C1.2.</i> Implementation of mechanisms for supervision, control and monitoring.</p>	<p><i>C1.1.a.</i> 61,000 low-cost houses built and delivered to the public by the end of the program.</p> <p><i>C1.1.b.</i> 10,000 houses upgraded by the end of the program.</p> <p><i>C1.2.a.</i> The works supervision and inspection mechanisms and the monitoring system are implemented and operate effectively six months after the program begins. The first report is presented to FNV and the PCU covering the tasks specified in the terms of reference.</p>	<p>Progress reports and final evaluation.</p> <p>Progress reports and final evaluation.</p> <p>Document on the design of the systems approved.</p> <p>Progress reports.</p> <p>Administration missions by specialists from Bank Headquarters.</p>	
<p>C2. Institutional strengthening and strategic development of the sector</p> <p><i>C2.1.</i> Strengthening of the VMVDT.</p> <p><i>C2.2.</i> FNV information system.</p>	<p><i>C2.1.a.</i> Administration and management system implemented 12 months after the program begins.</p> <p><i>C2.1.b.</i> Organizational structure, staffing plan and operating procedures of FNV prepared and implemented six months after the program begins.</p> <p><i>C2.1.c.</i> Sector information system implemented 14 months after the program begins. Web access is available to the main indicators, studies and web sites of the most relevant players in the housing sector.</p> <p><i>C2.2.a.</i> National information system on family housing subsidies adapted to the new structure and operating by the end of the second quarter of 2004: (i) all relevant information for executing family housing subsidies is available over the web; (ii) information declared by potential beneficiaries of the family housing subsidies can be crossed with other sources; and (iii) the entities participating in the family housing subsidies update their information in real time, with virtual management.</p>	<p>Progress reports.</p> <p>Organizational and administrative manuals and operating regulations.</p> <p>Agreements reached with information suppliers. Detailed design of the system approved.</p> <p>Progress reports.</p> <p>Document on the design of the information system approved.</p> <p>Progress reports.</p> <p>Survey of system users.</p>	

Narrative summary	Indicators	Means of verification	Assumptions
<p>C2.3. Technical assistance for local governments.</p> <p>C2.4. Technical assistance for microcredit institutions.</p>	<p><i>C2.3.a.</i> Technical assistance packages for municipalities to prepare land management plans formulated 12 months after the program begins; technical assistance packages tested in 10 pilot municipalities, and 25 municipalities receive assistance on their land management plans, by the end of the program.</p> <p><i>C2.3.b.</i> Technical assistance packages for municipalities for the <i>preparation and inspection of social housing projects</i> are formulated 12 months after the program begins; technical assistance packages are tested in at least 10 pilot municipalities, and 20 municipalities receive assistance in project design and/or inspection by the end of the program.</p> <p><i>C2.3.c.</i> Five urban renewal or improvement projects are designed by the end of the program.</p> <p><i>C2.4.a.</i> Comprehensive technical assistance for two microcredit institutions by the end of the program.</p> <p><i>C2.4.b.</i> Tools for general technical assistance designed 12 months after the program begins and provided to at least seven institutions.</p>	<p>Progress reports and final evaluation.</p> <p>Progress reports and final evaluation.</p> <p>Progress reports and final evaluation.</p> <p>Progress reports and final evaluation.</p> <p>Progress reports and final evaluation.</p>	
General activities			
<p><i>A1.</i> Contracting of individual consultants and consulting firms; procurement of goods; selection process; setting priorities; signature of contracts with entities in the system.</p> <p><i>A2.</i> Identification, selection and grant of subsidies as established in the program.</p>	<p>Program budget.</p> <p>Contract documents approved.</p> <p>Program budget.</p>	<p>Program accounting records.</p> <p>Contracts.</p> <p>Program accounting records.</p>	<p>Suitable consultants apply during the selection processes.</p> <p>Local counterpart funds are disbursed on time.</p> <p>Social groups in the housing sector support the program's objectives and strategies.</p>

MANAGEMENT INDICATORS TO MEASURE MIDTERM GOALS

Program objective	Expected results	Baseline	Midterm goals	Goals by the end of the program
<i>1. Provision of social housing for low-income households.</i>	<p><i>1.1. The level of coverage improves.</i></p> <p><i>1.2. Level of focus is maintained, as a minimum.</i></p> <p><i>1.3. Quality of housing improves.</i></p>	<p><i>1.1.1. Number of family housing subsidies granted for every US\$10 million: 4,000 in 2002.</i></p> <p><i>1.1.3. Percentage of family housing subsidies executed vs. assigned: 60% average 1999-2001.</i></p> <p><i>1.2.1. Over 80% of beneficiaries of family housing subsidies have incomes equal to two MMWs or less.</i></p> <p><i>1.2.2. 70% of families are registered in SISBEN.</i></p> <p><i>1.3.1. 8 % of houses not occupied on account of quality problems.</i></p> <p><i>1.3.2. 80% of families are satisfied with the housing solution received.</i></p>	<p><i>1.1.1. Number of family housing subsidies granted for US\$10 million: 4,600.</i></p> <p><i>1.1.2. 25,000 low-cost houses built or under construction and/or upgraded or being upgraded.</i></p> <p><i>1.1.3. Percentage of family housing subsidies executed vs. assigned: 70%.</i></p> <p><i>1.2.1. Over 80% of beneficiaries of family housing subsidies have incomes equal to two MMWs or less.</i></p> <p><i>1.2.2. 75% of families are registered in SISBEN.</i></p> <p><i>1.3.1. 5% of houses not occupied on account of quality problems.</i></p> <p><i>1.3.2. 90% of families are satisfied with the housing solution received.</i></p>	<p><i>1.1.1. Number of family housing subsidies granted for each US\$10 million: 4,600.</i></p> <p><i>1.1.2. 71,000 low-cost houses built or upgraded under the program.</i></p> <p><i>1.1.3. Percentage of family housing subsidies executed vs. assigned: 80%.</i></p> <p><i>1.2.1. Over 80% of beneficiaries of the subsidies have incomes equal to two MMWs or less.</i></p> <p><i>1.2.2. 85% of families are registered in SISBEN.</i></p> <p><i>1.3.1. 2% of houses not occupied on account of quality problems.</i></p> <p><i>1.3.2. 95% of families are satisfied with the housing solution received.</i></p>
<i>2. Institutional strengthening and strategic development of the sector.</i>	<i>2.1. VMVDT</i>	<i>2.1.1. Sector information system designed.</i>	<p><i>2.1.1. Sector information system implemented.</i></p> <p><i>2.1.2. Program monitoring system implemented and operating efficiently.</i></p>	<p><i>2.1.1. Sector information system operating efficiently.</i></p> <p><i>2.1.2. Program monitoring system implemented and operating efficiently.</i></p>

Program objective	Expected results	Baseline	Midterm goals	Goals by the end of the program
	<p>2.2. FNV</p> <p>2.3. Local governments</p> <p>2.4. Microcredit</p>	<p>2.2. Family housing subsidy information system designed and started up.</p>	<p>2.2. Family housing subsidy information system implemented.</p> <p>2.3.1. Five municipalities assisted in designing land management plans.</p> <p>2.3.2. Five municipalities assisted in improving their land management plans.</p> <p>2.3.3. At least five municipalities assisted in designing and/or inspecting social housing projects.</p> <p>2.3.4. At least four urban improvement or renewal projects formulated.</p> <p>2.4. One entity receives comprehensive technical assistance and at least four receive general assistance.</p>	<p>2.2. Family housing subsidy information system operates efficiently.</p> <p>2.3.1 10 municipalities assisted in designing land management plans.</p> <p>2.3.2. 10 municipalities assisted in improving their land management plans.</p> <p>2.3.3. At least 10 municipalities assisted in designing and/or inspecting social housing projects.</p> <p>2.3.4. At least 10 urban improvement or renewal projects formulated.</p> <p>2.4. Two entities receive comprehensive technical assistance and at least seven receive general assistance</p>